

CITY OF PITTSBURGH, PENNSYLVANIA

Single Audit Report

December 31, 2003

CITY OF PITTSBURGH, PENNSYLVANIA

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**FINANCIAL
SECTION**



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Independent Auditors' Report

The Honorable Members of Council of the
City of Pittsburgh, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, the budgetary comparison statements, and the aggregate remaining fund information of the City of Pittsburgh, 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 accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Urban Redevelopment Authority of Pittsburgh (the URA), the Public Parking Authority of Pittsburgh (the Parking Authority), the Pittsburgh Water and Sewer Authority (the PWSA), and the Stadium Authority of the City of Pittsburgh (the Stadium Authority), which represent 99% of the assets and 97% of the revenues of the discretely presented component units. We also did not audit the financial statements of the City of Pittsburgh Pension Trust Fund (the Pension Fund), which represents 94% and 81%, respectively, of the assets and revenues of the aggregate remaining fund information. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the URA, the Parking Authority, the PWSA, the Stadium Authority, and the Pension Fund, is based solely upon 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 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 reports of other auditors provide a reasonable basis for our opinions.



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of December 31, 2003 and the respective changes in financial position thereof and the respective budgetary comparison for the general fund, and community development fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 9(D)(2) to the financial statements, the City changed its method of presentation of the URA-PDF trust.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 and schedule of funding progress on page 102 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relations to the basic financial statements taken as a whole.

KPMG LLP

Pittsburgh, Pennsylvania
July 16, 2004, except
Footnote 1B and Management's
Discussion and Analysis, which
is as of December 20, 2004

Management's Discussion and Analysis

As management of the City of Pittsburgh, we offer readers of the City of Pittsburgh's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found at the beginning of this report, and in the basic financial statements and supplementary information.

Financial Highlights

- In November 2003, the City sought municipal self-help as a "financially distressed" municipality under Pennsylvania law. As a result, a Five-Year Financial Plan has been adopted mandating spending cuts and levying new and broader based taxes. The recovery plan will be monitored by both the Act 47 coordinators and the Intergovernmental Cooperation Authority, an oversight board appointed by the Governor and the State legislature.
- The liabilities of the City of Pittsburgh exceeded its assets at the close of the most recent fiscal year by \$713 million. As of December 31, 2003, the City, in its statement of net assets, has an unrestricted net asset unrestricted deficit of \$728.1 million. The accumulated deficit results principally from the City's outstanding general obligation bonds being issued over the years to finance projects that don't result in recording assets; specifically to fund the payments to the Pension Trust Fund (\$280 million outstanding as of December 31, 2003), the City's borrowings to finance economic development efforts (including projects of the City's Authorities, principally the URA), and maintenance expenditures on city infrastructure, and equipment needs.
- The City's total net assets decreased by \$13 million in 2003.
- As of the close of the current fiscal year, the City of Pittsburgh's governmental funds reported combined ending fund balances of \$77.3 million, a decrease of \$53.8 million from the previous year. Approximately 54% of this total amount, \$42.1 million, is available for spending at the government's discretion (unreserved fund balance).
- The City's general fund has reduced its fund balance by \$27 million in 2003, \$11 million in 2002, and \$11 million in 2001 as a result of tax structure and expenditure issues discussed later in this document.
- At the end of the 2003 fiscal year, unreserved fund balance for the general fund was \$31.1 million (compared to \$58 million in 2002), or 7.8 % of total general fund expenditures and debt service transfers, which totaled \$397.3 million in 2003. This measure of financial health declined from 15% in 2002.

The City of Pittsburgh's net bonded debt amounted to \$860.4 million at the end of the fiscal year. \$13.8 million in new debt was issued in 2003, and \$13.6 million of this amount was paid to escrow agents to refund debt. In 2003, \$30.9 million in principal payments were made for a net decrease in outstanding debt of \$19.1 million from 2002 when considering bonds defeased and discount amortization.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Pittsburgh's basic financial statements. For only the second year, the City's financial statements present two types of

statements. Each with a different snapshot of the City's finances. The focus is on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both short-term and long-term information about the City's overall financial status. The fund financials focus on the individual parts of City government, reporting the City's operations in more detail than the government-wide statements, which present a longer-term view. The City of Pittsburgh's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Pittsburgh' finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Pittsburgh's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets (deficit) may serve as a useful indicator of whether the financial position of the City of Pittsburgh is improving or deteriorating.

The statements of activities presents information showing how the government's net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event gives rise to the change that occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include not only the City of Pittsburgh itself (known as the primary government), but also component units of the Urban Redevelopment Authority (URA), Pittsburgh Water and Sewer Authority, Public Parking Authority, Stadium Authority. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found in the financial section of this report.

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 of Pittsburgh, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Pittsburgh can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Pittsburgh maintains individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the Debt Service fund, the Community Development Block Grant (CDBG) Fund, and the Capital Projects fund, all of which are considered to be major funds. Data from the other six governmental funds (non-major funds) are combined into a single, aggregated presentation (Other governmental funds).

The City of Pittsburgh adopts an annual appropriated budget for its General, Capital Projects and Community Development funds. A budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with these budgets.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The largest fiduciary fund is the City's pension fund. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Pittsburgh's own programs. Agency funds are custodial in nature and do not involve measurement of results of operations.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Pittsburgh's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets (deficit) may serve over time as a useful indicator of a government's financial position. In the case of the City of Pittsburgh, liabilities exceeded assets by \$712.6 million at the close of the most recent fiscal year.

By far the largest portion of the City of Pittsburgh's deficit in net assets of \$712.6 million is its unrestricted deficit of \$(728.1) million. This deficit is partially offset by investments in capital assets, net of related debt of \$14.0 million. The City of Pittsburgh uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending and the assets have been financed with certain debt.

Although the City of Pittsburgh's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Condensed Net Assets:

The following table presents a condensed summary of net assets as of December 31, 2003 and 2002:

CITY OF PITTSBURGH'S NET ASSETS

(\$ millions)	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2003</u>	<u>2002</u>
<u>Current assets</u> (\$45.7 restricted in 2003)	117	170
<u>Noncurrent restricted assets</u>	0	1
<u>Capital assets</u>	193	175
<u>Total assets</u>	<u>310</u>	<u>346</u>
<u>Long-term liabilities outstanding</u>	895	921
<u>Current liabilities</u>	128	124
<u>Total liabilities</u>	<u>1,023</u>	<u>1,045</u>
<u>Net assets:</u>	<u>(713)</u>	<u>(699)</u>
<u>Invested in capital assets, net of related debt</u>	14	(8)
<u>Restricted</u>	1	1
<u>Unrestricted</u>	<u>(728)</u>	<u>(692)</u>
<u>Total net assets</u>	<u>(713)</u>	<u>(699)</u>

As of December 31, 2003, the City has an unrestricted deficit of \$728.1 million, which represents 2.3 years of primary government general revenues. This is principally a result of general obligation debt to finance projects that do not result in recording assets including; using approximately \$280 million in debt to finance an accumulated unfunded pension obligation (which was only 25.6% funded in 1998 prior to the pension financing and at 12/31/03 is 40.8% funded), payments to City authorities for capital projects and economic development efforts (including projects of the City's Authorities, principally the URA), and infrastructure related expenditures principally maintenance to City streets. Capital assets increased from the State's contribution of a constructed roadway to the City and other miscellaneous construction.

Summary of Changes in Net Assets:

The following table shows the revenues and expenses of the primary government.

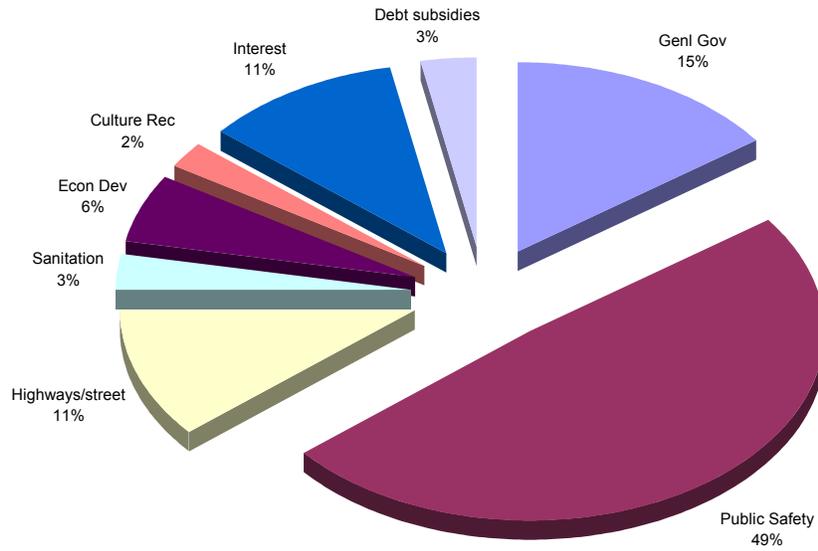
Governmental activities. Governmental activities increased the City of Pittsburgh's net deficit by \$14 million in 2003. A key element mitigating this decrease was the increase in Capital Grants and Contributions by \$9.6 million due to a state roadway contribution, and the remaining amounts are as follows:

CITY OF PITTSBURGH'S ACTIVITIES

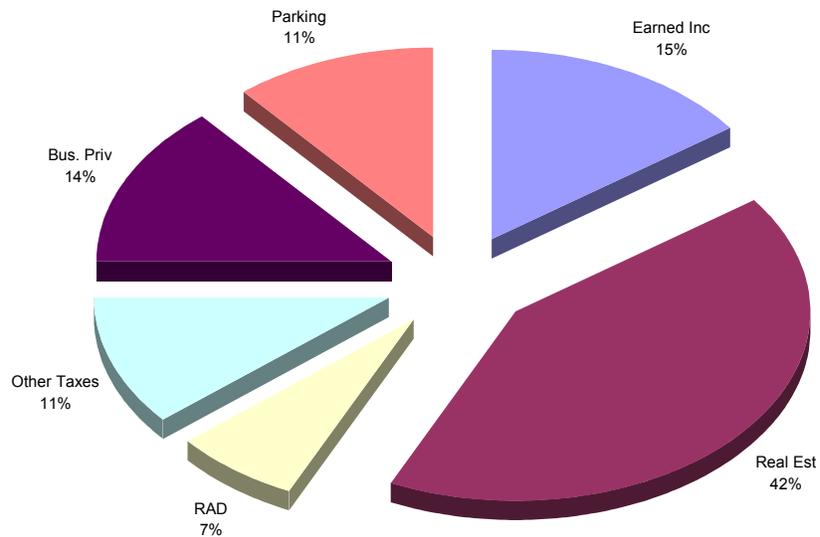
(\$ millions)	<u>Governmental</u> <u>activities</u>	
	<u>2003</u>	<u>2002</u>
<u>Revenues:</u>		
<u>Program Revenues:</u>		
<u>Charges for services</u>	44	42
<u>Operating grants & contributions</u>	49	45
<u>Capital grants & contributions</u>	39	29
<u>General revenues:</u>		
<u>Real Estate Property taxes</u>	128	122
<u>Earned Income taxes</u>	46	48
<u>Business Privilege taxes</u>	44	43
<u>Parking taxes</u>	32	32
<u>RAD sales taxes</u>	20	21
<u>Deed Transfer taxes</u>	9	10
<u>Amusement taxes</u>	9	10
<u>Mercantile taxes</u>	8	7
<u>Other taxes</u>	8	8
<u>Other</u>	4	7
<u>Total taxes – subtotal</u>	<u>308</u>	<u>308</u>
<u>Total Revenue</u>	<u>440</u>	<u>424</u>
<u>Expenses:</u>		
<u>General government</u>	69	78
<u>Public safety</u>	222	203
<u>Highways/streets</u>	50	53
<u>Sanitation</u>	12	13
<u>Economic development</u>	25	20
<u>Culture recreation</u>	11	12
<u>Interest</u>	50	47
<u>Debt subsidies to Authorities and Component Units</u>	15	15
<u>Total expenses</u>	<u>454</u>	<u>441</u>
<u>(Decrease) in net assets</u>	<u>(14)</u>	<u>(17)</u>
<u>(Net assets) – January 01, 2002</u>	<u>(699)</u>	<u>(682)</u>
<u>(Net assets) – December 31, 2002</u>	<u>(713)</u>	<u>(699)</u>

Public Safety accounted for half of the expenditures, increasing by \$19 million while other departments cut costs. Efforts to merger the Fire and EMS departments failed in 2003.

Expenses of the governmental Statement of Activities are shown below by functional area:



General fund Tax Revenues are presented below by type of tax:



Governmental Funds

Government funds. The focus of the City of Pittsburgh's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Pittsburgh's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Revenues for the General fund totaled \$370.3 million in 2003, an increase of \$1.5 million, compared to 2002, or by 0.4%. The net increase of \$1.6 million in tax revenue was due an increase of \$3.4 million (2.7%) during the year in real estate tax and \$0.6 million in Mercantile taxes offset by a 4% decline of \$1.7 million in Earned Income and other tax revenue declines. Real estate taxes increased because of increases in collections and less refunds and Earned Income taxes decreased due to lower taxable revenues earned by city residents.

In addition to the above General fund tax revenues, the City collected \$21.8 million in the Community Development fund, \$16.9 million in Capital Projects, and \$19.1 million in Other Governmental funds related to pass-thru federal and state monies.

At the end of the current fiscal year the City of Pittsburgh's governmental funds reported combined ending fund balances of \$77.3 million, a decrease of \$53.8 million from 2002. Approximately 54% of this total fund balance, or \$42 million constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved or not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period. Such commitments included \$17.5 million for encumbrances, \$.2 million for debt service, \$16.2 million restricted for capital projects, and \$1.2 million for other.

The General Fund is the chief operating fund of the City of Pittsburgh. At the end of the current fiscal year, unreserved fund balance of the general fund was \$31.1 million, while total fund balance for the General Fund \$35.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.8% of total general fund expenditures and operating transfers of \$397.3 million, while total fund balance represents 7.8% of General Fund expenditures and operating transfers.

The fund balance of the City of Pittsburgh's general fund decreased by \$27 million during the current fiscal year.

Expenditures and uses, including debt service payments/transfers, for the General Fund in 2003 increased to \$397.3 million, compared to \$380.1 million in 2002 representing an increase of 4.6% or \$17.2 million overall. This increase occurred despite the City's efforts to hold the line on expenses. The expenditures, which drove the increase, were higher costs associated with health care, pension, and debt service. Contractual obligations due under collective bargaining agreements also resulted in higher costs during 2003.

The largest dollar increase in expenditures and transfers was a \$10 million increase in transfers to debt service. Transfers to debt service of \$70.8 million combined with debt subsidies of \$14.2 million

totaled \$85 million. The debt subsidies are for the Urban Redevelopment Authority and Auditorium Authority and are commitments made by the City over the life of the bonds. The increase of \$10 million was due to the deferral of principal payments in 2002. Debt and debt subsidies accounted for 21.2% of the expenditures illustrating the magnitude of the City of Pittsburgh's annual debt service, constituting over one out of every 5 dollars spent out of the General Fund.

The debt service fund has a total fund balance of \$172,000, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$312,000.

The Community Development fund had intergovernmental revenues of \$21.8 million and expenditures of \$21.8 million. The Capital Projects fund had \$20.4 million of revenues, \$24.2 million in maintenance costs, \$18.3 million of capital related expenditures, received \$13.8 million in bond proceeds, paid \$13.6 million to escrow agents for refunded debt, and paid \$3.5 million of operating transfers. The Capital Projects fund, fund balance decreased by \$25.3 million in 2003. The fund balance was \$30.7 million as of December 31, 2003.

General Fund Budgetary Highlights

Actual General Fund revenues were below the budgeted revenues by \$37.1 million or 9.6%. Real Estate taxes (\$2.3 million shortfall), Earned Income taxes (\$3.0 million shortfall), Parking taxes (\$1.6 million shortfall), and Amusement taxes (\$1.0 million shortfall) all contributed to about \$7.9 million of the shortfall. The Deed Transfer Tax exceeded budgeted revenue by \$0.7 million. \$29 million of the gap was due to the budgeting of new tax revenue -- a retail drink tax (\$5.0 million), and a payroll preparation tax (\$24.0 million)—anticipated as a result of state legislative action expanding the City's taxing authority. Such authority was not granted in 2003. In addition, the final budgeted expenses exceeded the final budgeted revenues by \$11.7 million when expense reductions, anticipated through an EMS and Fire merger, were not realized. As a result, fund balance cash was used to fill the gap.

During fiscal year 2003, City Council amended the budget primarily for the following reasons:

- To appropriate funds to pay commitments in the form of encumbrances for General Fund purchase orders authorized and issued, but for which goods and services were not received nor paid for by December 31, 2002 totaled \$9.4 million of which \$1.7 million was due to employee benefits carryovers.

Capital Asset and Debt Administration

Capital assets. The City of Pittsburgh's investment in capital assets for its governmental-type activities as of December 31, 2003, amounts to \$192.5 million, net of accumulated depreciation. This investment in capital assets includes building and building improvements, land, machinery and equipment, furniture and fixtures, vehicles, infrastructure and construction-in-progress.

Major capital asset events during the current fiscal year included the following:

- A variety of street construction projects in new residential developments and widening and expansion projects for existing streets and bridges began; construction in progress as of the end of the current fiscal year was \$4.8 million.

CITY OF PITTSBURGH'S CHANGES IN CAPITAL ASSETS

(\$ millions)	Governmental Activities	
	2003	2002
<u>Land & land improvements</u>	46	46
<u>Construction in progress</u>	5	16
<u>Buildings and building improvements</u>	93	91
<u>Infrastructure</u>	172	136
<u>Vehicles</u>	41	40
<u>Furniture & fixtures</u>	7	7
<u>Machinery & equipment</u>	2	2
<u>Total capital assets</u>	<u>366</u>	<u>338</u>
<u>Less accumulated depreciation for:</u>		
<u>Buildings</u>	(72)	(70)
<u>Infrastructure</u>	(62)	(54)
<u>Vehicles</u>	(30)	(30)
<u>Furniture & other equipment</u>	(7)	(7)
<u>Machinery & equipment</u>	(2)	(2)
<u>Total accumulated depreciation</u>	<u>(173)</u>	<u>(163)</u>
<u>Net Assets</u>	<u>193</u>	<u>175</u>

The largest increase in infrastructure assets was due to completion of roadway construction projects primarily contributed by the State. Additional information on the City of Pittsburgh's capital assets can be found in note 6 of this report.

Long-term debt. At the end of the current fiscal year, the City of Pittsburgh had total debt outstanding of \$860,352,623, which comprises debt backed by the full faith and credit of the government.

CITY OF PITTSBURGH'S OUTSTANDING DEBT

(\$ millions)	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2003</u>	<u>2002</u>
<u>General obligation bonds</u>		
<u>Beginning balance at January 1</u>	879	866
<u>Debt Issued</u>	15	129
<u>Refinanced Bonds</u>	(8)	(66)
<u>Principal Payments</u>	<u>(26)</u>	<u>(50)</u>
<u>Ending Balance at December 31</u>	<u>860</u>	<u>879</u>

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates. In June 2003 the City of Pittsburgh issued \$13,575,000 in General Obligation bonds to refund principal and interest on bonds due in September 2003.

The City's bond ratings were lowered to non-investment grade in fall 2003 as a result of bankruptcy discussion, a "going concern" audit opinion and the failure of the State to approve a viable restructuring of the City of Pittsburgh's tax structure. Moody's dropped Ba1; Fitch, BB; Standard & Poor's, BB. On December 7, 2004, Standard & Poor's raised the City of Pittsburgh's rating to BBB-, one notch above junk status.

Pittsburgh's 2004 Fiscal Position

The State legislature did not act in 2003 to grant Pittsburgh adequate new taxing authority and to increase State aid. As a result, in November 2003 the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47). The PA Department of Community and Economic Development (DCED), after review of the City's application and on the advice of its legal and financial experts, agreed. The Act 47 coordinators issued their Recovery Plan on June 11, 2004, which was adopted by Pittsburgh City Council on June 29, 2004, making the Plan an ordinance of the City.

Subsequent to the City's designation as financially distressed under Act 47, the State legislature under Act 11 established an Intergovernmental Cooperation Authority (the "ICA") to provide fiscal oversight for the City for a period of seven years. Act 11 stipulated that only the Governor of the Commonwealth has the power to approve or disapprove any filing for relief under 11 U.S.C. Ch. 9 and that the ICA is to operate concurrently and equally with the Act 47 coordinators. In accordance with Act 11, the City was prohibited from any borrowings unless the City's Five Year Financial Plan was

approved by the ICA board and the City and the ICA enter into an intergovernmental cooperation agreement consistent with the Act. Both have been achieved.

In accordance with the requirements of Act 11, the City submitted on November 5, 2004 its 2005 Operating and Capital Budgets and Five-Year Financial Forecast and Performance Plan. The ICA approved the Plan. The Plan calls for reductions to expenditures and a new tax structure discussed below. The expenditure reductions include a commitment to reduce Public Safety cost, primarily with a cut to the Fire Department, and other costs included a reduction to all elected officials' budgets (Mayor, Controller and Council).

On November 21, 2004 the State legislature approved legislation providing Pittsburgh with new taxing authority that is intended to balance its 2005 and subsequent operating budgets allowing for a surplus each year to build a fund balance of \$21.9 million by 2009. Taxes include: a 0.55% tax on the gross payroll of all for-profit businesses, \$52 on individuals working in the City, 3% tax on wages earned by non-resident sports players and performers using the stadium and arena, a shift in earned income away from the school district and to the city beginning in 2007, elimination of the \$4 million payment of regional asset district sales tax to the school district and a gradual reduction in the City's parking tax beginning in 2007. The tax package provides for the elimination of business taxes paid by only 55% of the businesses and the implementation of a new tax on gross payroll of all for-profit businesses. This restructuring of business taxes and increase in taxes paid by individuals, particularly commuter, will result in a broader based tax structure going forward.

Cash Position

Cash balances held as "rainy day" reserves were largely used to meet current obligations beginning the latter half of 2003. Efforts by the City throughout 2003 to reserve cash were successful and permitted the City to continue operations without executing a planned \$40 million bank borrowing in January 2004. An early 2003 hiring freeze, layoffs in August, increased police retirements in the Fourth Quarter 2003, and the elimination of all non-discretionary spending such as travel, education, supplies, and secondary contracts improved year-end 2003 cash balance from October 2003 projections of \$18 million to \$29 million. While only adequate to fund a month's expense, the City's cash position at year end 2003, together with acceleration of real estate tax payments by mortgage companies in January 2004, reflect financial management efforts to keep the City solvent.

The City is currently projecting a cash balance as of December 31, 2004 of negative \$1.2 million. Increased employee retirements and continued cost controls are in place to hold spending. If necessary, the City will defer payment of its \$4 million RAD reimbursement obligation to the School District until a short term line-of-credit is exercised. The School District is in agreement with this deferral. In order to meet financial obligations until new tax revenues are collected in February 2005, the City has obtained a commitment from a consortium of local banks to provide a \$40 million Non-Revolving Tax-Exempt Tax and Revenue Anticipation Credit Facility to provide liquidity effective January 4, 2005. New and current tax revenues in the first quarter of 2005 are expected to be sufficient to allow for a repayment of the line-of-credit in the second quarter of the year.

Requests For Information

This financial report is designed to provide a general overview of the City of Pittsburgh's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller's Office, First Floor City County Building, 414 Grant Street, Pittsburgh, PA 15219.

**BASIC
FINANCIAL STATEMENTS**

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Net Assets/(Deficit)

December 31, 2003

	<u>Primary government Governmental activities</u>	<u>Component units</u>
Current assets:		
Cash, cash equivalents, and investments	\$ 45,650,580	206,609,342
Restricted cash	35,804,579	58,660,038
Investments - restricted	—	13,131,970
Real estate taxes (net of allowance for uncollectible accounts of \$6,915,951)	7,773,378	—
Accounts receivable, net	—	15,450,214
Accrued interest receivable	63,276	599,561
Due from other governments	12,147,708	4,049,664
Due from component unit	894,993	—
Due from fiduciary funds	269,083	—
Taxpayer-assessed taxes receivable	10,098,818	—
Inventory	—	1,462,000
Notes receivable	—	279,806
Other receivables	4,540,574	7,941,959
Other receivables - restricted	—	316,320
Grant receivable	—	2,591,876
Prepaid expenses	—	180,000
	<hr/>	<hr/>
Total current assets	117,242,989	311,272,750
Noncurrent assets:		
Trusteed and restricted funds:		
Cash and cash equivalents	—	8,311,000
Accounts receivable – parking	—	79,570
Accrued interest receivable	—	168,000
Investments	—	74,261,477
	<hr/>	<hr/>
Total restricted assets	—	82,820,047
Capital assets:		
Buildings and building improvements	92,994,657	30,403,219
Land and land improvement	45,602,091	34,003,352
Parking facilities	—	116,085,378
Machinery and equipment	1,769,314	106,594,517
Utility plant	—	394,370,000
Non-utility plant	—	14,067,000
Furniture and fixtures	7,356,392	—
Vehicles	41,403,612	—
Infrastructure	171,855,213	—
Construction-in-progress	4,794,603	23,891,786
Less accumulated depreciation	(173,259,538)	(162,350,141)
	<hr/>	<hr/>
Net capital assets	192,516,344	557,065,111
Leasehold improvements	—	8,465
Other assets	—	2,114,738
Other assets - restricted	—	164,910
Bond issuance costs, net of amortization	—	7,788,052
Loans/notes receivable	—	57,709,467
Loans/notes receivable - restricted	—	110,290,946
Assets held for sale	—	21,176,160
Assets held for sale - restricted	—	4,121,707
Development fund	—	1,090,733
	<hr/>	<hr/>
Total noncurrent assets	192,516,344	844,350,336
Total assets	\$ 309,759,333	1,155,623,086

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Net Assets/(Deficit)

December 31, 2003

	<u>Primary government Governmental activities</u>	<u>Component units</u>
Current liabilities:		
Accounts payable – wastewater treatment	\$ —	8,537,000
Accrued expenses and deferred income	—	886,060
Accounts and retainage payable	16,647,438	31,417,678
Accrued payroll and related obligation:	10,033,122	743,000
Accrued interest payable	16,190,533	7,282,458
Accrued workers' compensation	19,026,283	—
Accrued compensated absence:	16,926,064	—
Accrued claims and judgment:	2,067,500	—
Deferred revenue	—	16,314,227
Due to other governments:	3,931,790	—
Due to fiduciary funds:	778,372	—
Note due to City of Pittsburgh, current portion	—	1,415,000
Bonds and loans payable, current portion	41,885,000	18,535,000
Total current liabilities	<u>127,486,102</u>	<u>85,130,423</u>
Noncurrent liabilities:		
Deferred revenue	—	551,000
Accrued payroll-related obligation:	—	1,209,000
Note due to the City of Pittsburgh:	—	11,755,000
Bonds and loans payable, net of unamortized premiums/discounts and bond issuance cost:	818,467,623	868,896,575
Accrued workers' compensation	60,334,143	—
Accrued compensated absence:	15,108,870	—
Accrued claims and judgment:	1,000,000	—
Advance from the City of Pittsburgh	—	22,775,168
Total noncurrent liabilities	<u>894,910,636</u>	<u>905,186,743</u>
Total liabilities	<u>1,022,396,738</u>	<u>990,317,166</u>
Net assets:		
Investments in capital assets, net of related debt	14,047,401	(10,803,010)
Restricted for:		
Capital projects	—	11,134,909
Debt service	172,122	5,422,117
Employee benefits:	1,207,105	—
Endowments	7,270	—
Public Parking Authority	—	12,484,150
Urban development	—	26,139,389
Lending programs	—	144,795,207
Multi-family Housing Program	—	684,196
Unrestricted (deficit)/net asset:	<u>(728,071,303)</u>	<u>(24,551,038)</u>
Total net assets/(deficit)	<u>\$ (712,637,405)</u>	<u>165,305,920</u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Activities

For the Year Ended December 31, 2003

	<u>Expenses</u>
Primary government	
Governmental activities:	
General government	\$ 68,571,952
Public safety	221,439,681
Highways and streets	50,089,338
Sanitation	12,080,381
Economic development (includes debt subsidies to URA of \$11,295,958)	36,577,174
Culture and recreation (includes debt service subsidies to Sports and Exhibition and Public Auditorium Authorities of \$4,067,943)	14,717,879
Interest on long-term debt plus bond issuance costs and amortization of premiums and discounts	<u>50,274,609</u>
Total primary government	<u>453,751,014</u>
Component units	<u>\$ 202,455,645</u>

See accompanying notes to financial statements.

			2003	
			Net (expense) revenue and changes in net assets/(deficits)	
Program revenues			Primary government	
Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Component units
19,328,547	24,945,762	9,369,851	(14,927,792)	
20,171,829	16,451,679	1,005,079	(183,811,094)	
1,373,276	5,632,101	19,125,896	(23,958,065)	
1,063,853	629,849	—	(10,386,679)	
—	—	8,342,979	(28,234,195)	
1,809,203	1,033,637	837,941	(11,037,098)	
—	—	—	(50,274,609)	
<u>43,746,708</u>	<u>48,693,028</u>	<u>38,681,746</u>	<u>(322,629,532)</u>	
<u>110,903,632</u>	<u>47,511,407</u>	<u>11,425,556</u>		<u>(32,615,050)</u>
General revenues:				
			127,941,152	
			45,924,358	
			43,964,837	
			31,892,770	
			20,035,967	
			9,172,513	
			9,455,537	
			7,909,099	
			8,573,064	
			1,061,600	3,534,160
			546,387	
				(225,380)
			2,699,982	4,760,715
			<u>309,177,266</u>	<u>8,069,495</u>
			(13,452,266)	(24,545,555)
			(699,185,139)	189,851,475
			<u>(712,637,405)</u>	<u>165,305,920</u>

CITY OF PITTSBURGH, PENNSYLVANIA

Balance Sheet

Governmental Funds

December 31, 2003

Assets	General	Debt service	Special revenue CDBG	Capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments, at cost which approximates market	\$ 32,500,073	—	1,547,139	—	11,603,368	45,650,580
Cash and cash equivalents-restricted	304,653	144,735	—	35,355,191	—	35,804,579
Receivables:						
Real estate taxes (net of allowances for uncollectible accounts of \$9,646,456)	7,773,378	—	—	—	—	7,773,378
Taxpayer-assessed taxes receivable	10,098,818	—	—	—	—	10,098,818
Other receivables	3,690,832	—	—	—	849,742	4,540,574
Due from component units	894,993	—	—	—	—	894,993
Accrued interest	33,866	27,387	—	—	2,023	63,276
Due from other governments	4,734,157	—	3,570,349	996,534	2,846,668	12,147,708
Due from other funds	4,133,305	—	—	1,364,874	1,122,782	6,620,961
Total assets	\$ 64,164,075	172,122	5,117,488	37,716,599	16,424,583	123,594,867
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 8,821,258	—	2,721,687	2,002,241	1,699,294	15,244,480
Accrued liabilities	9,123,201	—	24,205	129,935	755,781	10,033,122
Retainage payable	—	—	125,043	1,277,909	—	1,402,952
Due to other funds	1,766	—	2,123,772	2,841,966	1,384,374	6,351,878
Due to agency funds	664,701	—	38,164	—	75,513	778,378
Due to other governments	1,808,988	—	—	800,000	1,322,802	3,931,790
Accrued claims and judgments	2,067,500	—	—	—	—	2,067,500
Deferred revenue, principally real estate taxes	6,483,323	—	—	—	—	6,483,323
Total liabilities	28,970,737	—	5,032,871	7,052,051	5,237,764	46,293,423
Fund balance:						
Reserved:						
Encumbrances	2,838,000	—	—	14,439,324	263,760	17,541,084
Reserved for endowments	7,270	—	—	—	—	7,270
Reserved for employee benefits	1,207,105	—	—	—	—	1,207,105
Unreserved:						
Undesignated	31,140,963	—	84,617	—	10,923,059	42,148,639
Designated for subsequent years expense	—	172,122	—	16,225,224	—	16,397,346
Total fund balances	35,193,338	172,122	84,617	30,664,548	11,186,819	77,301,444
Total liabilities and fund balances	\$ 64,164,075	172,122	5,117,488	37,716,599	16,424,583	123,594,867

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Reconciliation of the Balance Sheet to the
Statement of Net Assets

Governmental Funds

December 31, 2003

Total fund balances – governmental funds		\$ 77,301,444
Amounts reported for governmental activities in the statement of net assets are different due to:		
Capital assets used in governmental activities are not considered current financial resources and, therefore, are not reported as assets in the governmental funds:		
Governmental capital assets, at cost	\$ 365,775,882	
Less accumulated depreciation	<u>(173,259,538)</u>	192,516,344
Property taxes receivable that are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds		6,483,323
Long-term liabilities, including bonds payable with related accrued interest, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:		
Bonds payable, net of unamortized premiums/discounts and bond issuance costs	(860,352,623)	
Accrued compensated absences (short-term and long-term)	(32,034,934)	
Accrued workers' compensation (short-term and long-term)	(79,360,426)	
Accrued interest payable	(16,190,533)	
Accrued claims and judgments	<u>(1,000,000)</u>	<u>(988,938,516)</u>
Total net assets of governmental activities		\$ <u><u>(712,637,405)</u></u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2003

	<u>General</u>	<u>Debt service</u>	<u>Special revenue CDBG</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:						
Taxes, including penalty and interest	\$ 301,779,203	—	—	1,212,237	—	302,991,440
Payment in lieu of taxes	509,773	—	—	—	—	509,773
Interest and dividends	472,093	518,305	—	—	71,202	1,061,600
Fines and forfeits	7,665,761	—	—	—	26,929	7,692,690
Intergovernmental revenues	29,568,773	3,240,000	21,808,903	16,872,842	19,124,256	90,614,774
Charge for user services	29,416,989	—	—	544,099	6,092,929	36,054,017
Donations and endowments	486,387	—	—	60,000	—	546,387
Miscellaneous	376,147	—	—	1,726,000	642,640	2,744,787
Total revenues	<u>370,275,126</u>	<u>3,758,305</u>	<u>21,808,903</u>	<u>20,415,178</u>	<u>25,957,956</u>	<u>442,215,468</u>
Expenditures:						
Current operating:						
General government	51,227,705	5,621	6,135,458	3,615,598	1,009,423	61,993,805
Public safety	212,771,697	—	1,159,044	1,519,928	6,495,366	221,946,035
Public works	26,630,417	—	4,532,450	13,073,706	7,417,762	51,654,335
Sanitation	10,723,182	—	—	—	218,241	10,941,423
Community, recreational, and cultural	7,530,508	—	855,781	116,145	2,128,783	10,631,217
Economic and physical development	—	—	9,126,170	5,615,585	10,539,457	25,281,212
Claims and judgments	1,112,822	—	—	—	—	1,112,822
Miscellaneous	3,024,035	—	—	—	—	3,024,035
Debt service:						
Principal retirement of bonds	—	30,850,000	—	—	—	30,850,000
Interest on bonds	3,434	43,278,441	—	—	—	43,281,875
Bond issuance costs	—	—	—	200,290	—	200,290
Pittsburgh Sports and Exhibition Authority subsidy	537,585	—	—	—	—	537,585
Public Auditorium Authority subsidy	2,405,358	—	—	—	—	2,405,358
Urban Redevelopment Authority subsidy	11,295,958	—	—	—	—	11,295,958
Capital outlay:						
Highways, streets, and other construction projects	—	—	—	18,265,361	2,842,267	21,107,628
Total expenditures	<u>327,262,701</u>	<u>74,134,062</u>	<u>21,808,903</u>	<u>42,406,613</u>	<u>30,651,299</u>	<u>496,263,578</u>
Excess (deficiency) of revenues over expenditures	43,012,425	(70,375,757)	—	(21,991,435)	(4,693,343)	(54,048,110)
Other financing sources (uses):						
Bond proceeds	—	—	—	13,765,856	—	13,765,856
Transfers from other funds	755,000	70,064,134	—	—	4,416,526	75,235,660
Payments to escrow agents for refunded debt	—	—	—	(13,550,157)	—	(13,550,157)
Transfer to other funds	(70,826,725)	—	—	(3,490,390)	(918,545)	(75,235,660)
Total other financing sources (uses)	<u>(70,071,725)</u>	<u>70,064,134</u>	<u>—</u>	<u>(3,274,691)</u>	<u>3,497,981</u>	<u>215,699</u>
Net change in fund balance	(27,059,300)	(311,623)	—	(25,266,126)	(1,195,362)	(53,832,411)
Fund balance at the beginning of year	62,252,638	483,745	84,617	55,930,674	12,382,181	131,133,855
Fund balance at end of year	<u>\$ 35,193,338</u>	<u>172,122</u>	<u>84,617</u>	<u>30,664,548</u>	<u>11,186,819</u>	<u>77,301,444</u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Year ended December 31, 2003

Net change in fund balances – governmental funds	\$ (53,832,411)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$(28,724,533) and net deletions \$(44,800) exceeded depreciation \$(11,408,792) in the current period.	17,360,531
Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	
Net change in deferred revenue related to real estate taxes.	1,368,086
The issuance of long-term debt (e.g., bonds) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	19,109,461
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Net decrease in December 31, 2003 compared to December 31, 2002 long-term accruals (i.e., compensated absences, workers' compensation, claims and judgments, and interest).	<u>2,542,067</u>
Change in net assets of governmental activities	<u>\$ (13,452,266)</u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

Year ended December 31, 2003

(Amounts expressed in thousands)

	2003			
	Budgeted amounts		Actual	Variance from
	Original	Final	(budgetary basis)	final budget over/(under)
Taxes:				
Real estate	\$ 126,271	126,271	124,000	(2,271)
Nonprofit payment for services	700	700	620	(80)
Mercantile	7,241	7,241	7,814	573
Amusement	10,459	10,459	9,462	(997)
Earned income	49,039	49,039	46,018	(3,021)
Deed transfer	8,452	8,452	9,154	702
Parking	32,514	32,514	30,879	(1,635)
Occupation privilege	3,157	3,157	3,224	67
Business privilege	42,110	42,110	42,573	463
Institution and service privilege	474	474	433	(41)
Public service	950	950	981	31
Penalties and interest	2,742	2,742	3,176	434
Act 77-tax relief	13,943	13,943	13,452	(491)
Total taxes, including penalty and interest	298,052	298,052	291,786	(6,266)
Interest earnings	1,382	1,382	505	(877)
Fines and forfeits	7,325	7,325	7,160	(165)
Licenses and fees:				
Liquor and malt beverage	415	415	419	4
Business	50	50	66	16
General government	767	767	663	(104)
Rentals and charges	4,474	4,474	4,696	222
Total licenses and fees	5,706	5,706	5,844	138
Federal and state grants	3,088	3,088	2,186	(902)
Reimbursement, CDBG	935	935	482	(453)
Public Parking Authority	1,900	1,900	1,900	—
PWSA Reimbursement	5,300	5,300	5,300	—
Sports and Exhibition Authority	87	87	87	—
State utility tax	500	500	500	—
Act 77-operations	5,859	5,859	5,859	—
Act 77-civic arena	1,600	1,600	1,600	—
Miscellaneous	268	268	298	30
Breakeven centers	17,370	17,370	17,979	609
Joint operations	175	175	38	(137)
Provisions of services	7,299	7,299	7,147	(152)
Sale of public property	50	50	—	(50)
Delinquent receivables-				
Magistrates court	500	500	658	158
Retail drink tax	5,000	5,000	—	(5,000)
Payroll preparation tax	24,000	24,000	—	(24,000)
Total general fund revenues	\$ 386,396	386,396	349,329	(37,067)

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

2003							
	Original adopted budget	Transfers and prior year carryover	Final budget	Expenditures	Encumbrances	Total actual	Variance favorable (unfavorable)
Current Operating-General Government:							
City Council and City Clerk's Office:							
City Council:							
Salaries	\$ 1,378	(19)	1,359	1,282	—	1,282	77
Council service, supplies, and equipment	16	—	16	2	2	4	12
Education and Training	20	—	20	9	—	9	11
Miscellaneous services	115	43	158	142	—	142	16
Total City Council	1,529	24	1,553	1,435	2	1,437	116
City Clerk's Office:							
Salaries	703	3	706	504	—	504	202
Premium pay	4	4	8	8	—	8	—
Miscellaneous services	617	(338)	279	128	1	129	150
Supplies	15	—	15	15	—	15	—
Equipment	7	1	8	1	—	1	7
Rentals	60	—	60	48	—	48	12
Transfers	181	(175)	6	—	—	—	6
Total City Clerk's Office	1,587	(505)	1,082	704	1	705	377
Mayor's Office:							
Office of the Mayor:							
Salaries	1,655	(96)	1,559	1,559	—	1,559	—
Premium pay	2	—	2	2	—	2	—
Miscellaneous services	60	6	66	39	—	39	27
Education and training	90	—	90	51	—	51	39
Supplies	31	1	32	16	1	17	15
Equipment	4	—	4	2	—	2	2
Rentals	5	—	5	5	—	5	—
Total Office of the Mayor	1,847	(89)	1,758	1,674	1	1,675	83
City Information Systems:							
Salaries	2,777	(367)	2,410	2,410	—	2,410	—
Premium pay	40	—	40	29	—	29	11
Miscellaneous services	1,243	260	1,503	1,451	—	1,451	52
Education and travel expense	40	—	40	24	—	24	16
Supplies	188	—	188	169	—	169	19
Equipment	35	11	46	32	—	32	14
Rentals	734	—	734	734	—	734	—
Utilities	641	—	641	638	—	638	3
Total City Information Systems	5,698	(96)	5,602	5,487	—	5,487	115
Magistrates Court							
Salaries	1,239	(30)	1,209	1,158	—	1,158	51
Premium pay	10	9	19	18	—	18	1
Miscellaneous services	50	21	71	14	—	14	57
Education and training	3	—	3	—	—	—	3
Supplies	11	1	12	11	—	11	1
Equipment	2	—	2	—	—	—	2
Rentals	12	—	12	10	—	10	2
Total Magistrates Court	1,327	1	1,328	1,211	—	1,211	117
Commission on Human Relations							
Salaries	178	—	178	164	—	164	14
Miscellaneous services	25	31	56	9	20	29	27
Education and training	1	—	1	—	—	—	1
Supplies	2	—	2	1	—	1	1
Equipment	2	—	2	—	—	—	2
Total Human Relations	208	31	239	174	20	194	45

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

	2003						
	Original adopted budget	Transfers and prior year carryover	Final budget	Expenditures	Encumbrances	Total actual	Variance favorable (unfavorable)
Department of Finance:							
Salaries	\$ 3,012	(40)	2,972	2,966	—	2,966	6
Premium pay	31	—	31	25	—	25	6
Miscellaneous services	1,573	230	1,803	745	79	824	979
Education and training	27	—	27	9	—	9	18
Supplies	426	13	439	344	—	344	95
Materials	7	2	9	—	—	—	9
Equipment	78	7	85	31	—	31	54
Repairs	2	—	2	1	—	1	1
Rentals	31	—	31	29	—	29	2
Total Department of Finance	5,187	212	5,399	4,150	79	4,229	1,170
Office of City Controller:							
Salaries	3,060	(64)	2,996	2,821	—	2,821	175
Premium pay	10	—	10	7	—	7	3
Miscellaneous services	113	77	190	130	8	138	52
Education and training	25	—	25	22	—	22	3
Supplies	13	6	19	11	2	13	6
Equipment	20	27	47	47	—	47	—
Rentals	15	1	16	12	1	13	3
Total Office of City Controller	3,256	47	3,303	3,050	11	3,061	242
Department of Law:							
Salaries	1,538	—	1,538	1,488	—	1,488	50
Miscellaneous services	440	705	1,145	396	7	403	742
Education and training	21	—	21	15	—	15	6
Supplies	20	4	24	20	—	20	4
Judgments	2	—	2	1	—	1	1
Equipment	42	—	42	19	—	19	23
Rentals	10	—	10	10	—	10	—
Total Law	2,073	709	2,782	1,949	7	1,956	826
Department of Law-OBEO							
Salaries	245	(100)	145	131	—	131	14
Miscellaneous services	300	(275)	25	4	—	4	21
Education and training	4	—	4	1	—	1	3
Supplies	3	—	3	1	—	1	2
Equipment	13	—	13	—	—	—	13
Total Law OBEO	565	(375)	190	137	—	137	53
Department of Law-OMI							
Salaries	356	—	356	312	—	312	44
Premium pay	—	1	1	—	—	—	1
Miscellaneous services	300	112	412	293	—	293	119
Education and training	4	—	4	—	—	—	4
Supplies	5	1	6	4	—	4	2
Equipment	1	1	2	1	—	1	1
Rentals	—	3	3	—	—	—	3
Total Law OMI	666	118	784	610	—	610	174
Department of Personnel and Civil Service Commission:							
Salaries	1,367	(125)	1,242	1,242	—	1,242	—
Premium pay	4	—	4	2	—	2	2
Miscellaneous services	361	310	671	115	11	126	545
Education and training	22	—	22	9	—	9	13
Supplies	26	9	35	14	3	17	18
Equipment	63	6	69	18	28	46	23
Materials	3	—	3	2	—	2	1
Rentals	4	—	4	3	—	3	1
Total Personnel and Civil Service Commission	1,850	200	2,050	1,405	42	1,447	603

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

	2003						
	Original adopted budget	Transfers and prior year carryover	Final budget	Expenditures	Encumbrances	Total actual	Variance favorable (unfavorable)
Department of City Planning							
Salaries	\$ 1,192	—	1,192	1,142	—	1,142	50
Premium pay	4	—	4	1	—	1	3
Miscellaneous services	23	5	28	18	—	18	10
Education and training	10	—	10	4	—	4	6
Supplies	28	—	28	21	—	21	7
Rentals	7	(2)	5	6	—	6	(1)
Equipment	24	2	26	3	—	3	23
Grants	—	765	765	271	153	424	341
Utilities	3	—	3	1	—	1	2
Total Department of City Planning	1,291	770	2,061	1,467	153	1,620	441
Total General Government	27,084	1,047	28,131	23,453	316	23,769	4,362
Public Safety-Department of Public Safety:							
Bureau of Administration:							
Salaries and wages	506	—	506	437	—	437	69
Premium pay	10	—	10	7	—	7	3
Miscellaneous services	512	463	975	539	142	681	294
Education and training	4	—	4	1	—	1	3
Supplies and materials	7	1	8	7	—	7	1
Equipment	206	15	221	206	—	206	15
Repairs	1	—	1	—	—	—	1
Total Bureau of Administration	1,246	479	1,725	1,197	142	1,339	386
Bureau of Emergency Medical Services:							
Salaries and wages	7,641	1,184	8,825	8,825	—	8,825	—
Premium pay	2,274	(22)	2,252	2,236	—	2,236	16
Miscellaneous services	96	1	97	90	—	90	7
Education and training	14	8	22	22	—	22	—
Supplies and materials	217	(2)	215	194	12	206	9
Equipment	56	1	57	39	5	44	13
Rentals	4	—	4	3	—	3	1
Repairs	65	—	65	54	—	54	11
Uniforms	133	—	133	131	—	131	2
Total Bureau of Emergency Medical Services	10,500	1,170	11,670	11,594	17	11,611	59
Bureau of Police:							
Salaries	59,023	(2,569)	56,454	56,075	—	56,075	379
Premium pay	9,146	(1,756)	7,390	7,079	—	7,079	311
Transfers	778	—	778	778	—	778	—
Miscellaneous services	1,832	(10)	1,822	1,725	—	1,725	97
Education and training	111	(65)	46	35	—	35	11
Supplies and materials	293	99	392	345	8	353	39
Equipment	160	221	381	150	19	169	212
Repairs	8	—	8	2	—	2	6
Rentals	115	98	213	117	1	118	95
Uniforms	975	169	1,144	914	58	972	172
Total Bureau of Police	72,441	(3,813)	68,628	67,220	86	67,306	1,322
Bureau of Fire:							
Salaries and wages	43,581	5,161	48,742	48,739	—	48,739	3
Premium pay	7,660	1,070	8,730	8,730	—	8,730	—
Miscellaneous services	238	(100)	138	98	—	98	40
Education and training	25	(19)	6	3	—	3	3
Supplies	203	(33)	170	142	—	142	28
Repairs	40	(10)	30	14	—	14	16
Equipment	62	(10)	52	28	—	28	24
Uniforms	989	(300)	689	578	—	578	111
Total Bureau of Fire	52,798	5,759	58,557	58,332	—	58,332	225

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

	2003						
	Original adopted budget	Transfers and prior year carryover	Final budget	Expenditures	Encumbrances	Total actual	Variance favorable (unfavorable)
Bureau of Building Inspection:							
Salaries	\$ 2,425	—	2,425	2,406	—	2,406	19
Premium pay	5	—	5	(2)	—	(2)	7
Miscellaneous services	118	3	121	93	—	93	28
Education and training	16	—	16	4	—	4	12
Supplies	19	—	19	13	—	13	6
Repairs	—	—	—	—	—	—	—
Rentals	6	—	6	3	—	3	3
Equipment	18	—	18	9	—	9	9
Uniforms	15	—	15	13	—	13	2
Total Building Inspection	2,622	3	2,625	2,539	—	2,539	86
Total Public Safety-Department of Public Safety	139,607	3,598	143,205	140,882	245	141,127	2,078
Department of General Services:							
Administration:							
Salaries	1,076	(100)	976	905	—	905	71
Premium pay	12	—	12	10	—	10	2
Miscellaneous services	241	41	282	245	—	245	37
Education and training	12	—	12	1	—	1	11
Supplies	14	—	14	11	3	14	—
Equipment	5	—	5	3	—	3	2
Repairs	2	—	2	2	—	2	—
Rentals	549	9	558	545	9	554	4
Total Administration	1,911	(50)	1,861	1,722	12	1,734	127
Facilities Management:							
Salaries	2,109	(25)	2,084	2,062	—	2,062	22
Premium pay	53	—	53	41	—	41	12
Miscellaneous services	920	1	921	875	—	875	46
Education and training	2	—	2	1	—	1	1
Supplies	24	2	26	23	1	24	2
Equipment	9	—	9	7	—	7	2
Repairs	19	—	19	19	—	19	—
Materials	131	7	138	115	8	123	15
Uniforms	26	—	26	25	—	25	1
Total Facilities Management	3,293	(15)	3,278	3,168	9	3,177	101
Fleet Management:							
Salaries	2,594	(150)	2,444	2,417	—	2,417	27
Premium pay	215	—	215	178	—	178	37
Miscellaneous services	251	37	288	281	—	281	7
Education and training	12	—	12	2	—	2	10
Supplies	2,795	11	2,806	2,737	—	2,737	69
Materials	38	—	38	35	3	38	—
Equipment	339	—	339	320	7	327	12
Uniforms	49	—	49	46	—	46	3
Repairs	910	—	910	910	—	910	—
Rentals	12	—	12	12	—	12	—
Utilities	—	21	21	—	—	—	21
Total Fleet Management	7,215	(81)	7,134	6,938	10	6,948	186
Community Communications:							
Salaries	491	29	520	506	—	506	14
Premium pay	35	(15)	20	17	—	17	3
Miscellaneous services	66	—	66	63	3	66	—
Education and training	21	(14)	7	3	—	3	4
Supplies	45	4	49	26	3	29	20
Equipment	165	101	266	153	5	158	108
Total Community Communications	823	105	928	768	11	779	149

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

	2003						
	Original adopted budget	Transfers and prior year carryover	Final budget	Expenditures	Encumbrances	Total actual	Variance favorable (unfavorable)
Department of Engineering and Construction:							
Operations:							
Salaries	\$ 2,940	(40)	2,900	2,838	—	2,838	62
Premium pay	—	40	40	29	—	29	11
Miscellaneous services	16	—	16	15	—	15	1
Education and training	1	—	1	—	—	—	1
Supplies	36	1	37	20	2	22	15
Equipment	17	—	17	1	—	1	16
Rentals	26	—	26	24	—	24	2
Repairs	3	—	3	2	—	2	1
Materials	10	—	10	5	1	6	4
Total Engineering and Construction	3,049	1	3,050	2,934	3	2,937	113
Total General Services	16,291	(40)	16,251	15,530	45	15,575	676
Public Works-Department of Public Works:							
Administration:							
Salaries	902	(20)	882	862	—	862	20
Premium pay	45	(30)	15	3	—	3	12
Miscellaneous services	125	—	125	123	—	123	2
Education and training	25	—	25	9	—	9	16
Supplies	25	—	25	15	—	15	10
Equipment	50	3	53	15	—	15	38
Rentals	15	—	15	13	—	13	2
Total Administration	1,187	(47)	1,140	1,040	—	1,040	100
Operations:							
Salaries	10,849	(1,538)	9,311	9,311	—	9,311	—
Premium pay	773	(66)	707	518	—	518	189
Miscellaneous services	430	232	662	496	—	496	166
Supplies	150	12	162	97	1	98	64
Equipment	215	27	242	51	—	51	191
Uniforms	90	—	90	90	—	90	—
Materials	1,300	12	1,312	751	2	753	559
Repairs	395	—	395	296	—	296	99
Rentals	525	70	595	581	—	581	14
Total Operations	14,727	(1,251)	13,476	12,191	3	12,194	1,282
Environmental Services:							
Salaries	7,512	(710)	6,802	6,802	—	6,802	—
Premium pay	600	300	900	771	—	771	129
Miscellaneous services	3,000	—	3,000	2,923	—	2,923	77
Supplies	121	—	121	72	—	72	49
Equipment	32	2	34	32	—	32	2
Uniforms	90	—	90	89	—	89	1
Materials	8	—	8	1	—	1	7
Rentals	8	—	8	8	—	8	—
Total Environmental Services	11,371	(408)	10,963	10,698	—	10,698	265
Total Public Works	27,285	(1,706)	25,579	23,929	3	23,932	1,647
Community, Recreational and Cultural- Department of Parks and Recreation:							
Administration:							
Salaries	4,118	(520)	3,598	3,547	—	3,547	51
Premium pay	83	1	84	83	—	83	1
Miscellaneous services	671	121	792	589	149	738	54
Education and training	15	—	15	7	—	7	8
Supplies	319	(1)	318	307	—	307	11
Utilities	160	—	160	159	—	159	1
Repairs	9	—	9	7	—	7	2
Rentals	42	—	42	42	—	42	—
Equipment	52	(9)	43	34	—	34	9
Grants	—	227	227	166	40	206	21
Total Administration	5,469	(181)	5,288	4,941	189	5,130	158
Total Community, Recreational and Cultural-Department of Parks and Recreation	5,469	(181)	5,288	4,941	189	5,130	158

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

(Amounts Expressed in Thousands)

	2003						
	<u>Original adopted budget</u>	<u>Transfers and prior year carryover</u>	<u>Final budget</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Total actual</u>	<u>Variance favorable (unfavorable)</u>
Employee Benefits:							
Salaries	\$ 315	—	315	207	—	207	108
Pension	4,540	4,785	9,325	9,160	—	9,160	165
Fringe benefits	73,683	910	74,593	72,452	1,665	74,117	476
Total Employee Benefits	78,538	5,695	84,233	81,819	1,665	83,484	749
Claims and Judgments-Citywide	750	657	1,407	1,475	9	1,484	(77)
Citizens Review Board:							
Salaries	281	—	281	270	—	270	11
Miscellaneous services	99	5	104	74	5	79	25
Education and training	12	—	12	6	—	6	6
Supplies	11	—	11	6	1	7	4
Equipment	3	—	3	2	—	2	1
Repairs	1	—	1	—	—	—	1
Rentals	50	3	53	46	5	51	2
Total Citizens Review Board	457	8	465	404	11	415	50
Utilities-Citywide	7,427	91	7,518	7,419	1	7,420	98
GF Grants-Citywide	—	128	128	55	—	55	73
GF Grants-Other	4,040	—	4,040	4,040	—	4,040	—
Miscellaneous (Postage/Refunds)-Citywide	4,598	72	4,670	3,619	354	3,973	697
Debt Service:							
Debt service	71,231	—	71,231	70,052	—	70,052	1,179
Debt service subsidy	3,619	—	3,619	3,617	—	3,617	2
Total Debt Service	74,850	—	74,850	73,669	—	73,669	1,181
Total Nondepartmental	170,660	6,651	177,311	172,500	2,040	174,540	2,771
Total General Fund Expenditures	386,396	9,369	395,765	381,235	2,838	384,073	11,692
Deficiency of revenues over expenditures	\$ —		(9,369)			(34,744)	

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

General Fund

Year ended December 31, 2003

(Amounts expressed in thousands)

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/Inflows of Resources:

Actual amounts (budgetary basis) revenues from the budgetary comparison statement	\$ 349,329
State pension aid not included in budgetary basis but included as revenue on a GAAP basis	18,214
The adjustments to convert to GAAP basis, recording of receivables and revenues not included in budget	<u>2,732</u>
Total general fund revenue on GAAP basis as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 370,275</u></u>

Users/Outflows of Revenues:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 384,073
State pension aid not included in budgetary basis but included as expenditures on a GAAP basis	18,214
The adjustments to convert to GAAP basis, recording of expenditures and liabilities not included in budget	<u>(4,953)</u>
Total general fund expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 397,334</u></u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

Community Development Fund

Year ended December 31, 2003

(Amounts expressed in thousands)

	<u>Original/final budget</u>	<u>Actual (budgetary basis)</u>	<u>Variance favorable (unfavorable)</u>
Revenues:			
Intergovernmental	\$ 50,009,751	18,941,827	(31,067,924)
Total revenues	<u>50,009,751</u>	<u>18,941,827</u>	<u>(31,067,924)</u>
Expenditures:			
General government:			
Council and City Clerk's office	5,500,491	1,621,839	3,878,652
Finance	77,000	25,145	51,855
Department of Personnel and Human Relations	1,741,815	930,688	811,127
Department of City Planning	5,835,326	2,661,896	3,173,430
General services	70,849	—	70,849
Public safety	2,023,075	1,150,069	873,006
Public works:			
Public works	6,982,538	3,049,562	3,932,976
Engineering and construction	2,684,056	912,294	1,771,762
Community, recreational, and cultural programs	2,573,594	837,048	1,736,546
Intergovernmental programs	<u>22,521,007</u>	<u>8,342,979</u>	<u>14,178,028</u>
Total expenditures	<u>50,009,751</u>	<u>19,531,520</u>	<u>30,478,231</u>
Deficiency of revenues under expenditures	—	(589,693)	(589,693)
Fund balances - budgetary basis, beginning of year	<u>—</u>	<u>1,564,134</u>	<u>1,564,134</u>
Fund balances - budgetary basis, end of year	<u>\$ —</u>	<u>974,441</u>	<u>974,441</u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Budgetary Comparison Statement

Community Development Fund

Year ended December 31, 2003

(Amounts expressed in thousands)

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/Inflows of Resources:

Actual amounts (budgetary basis) revenues from the budgetary comparison statement	\$	18,942
The adjustments to convert to GAAP basis, recording of receivables and revenues not included in budget		<u>2,867</u>
Total general fund revenue on GAAP basis as reported on the statement of revenues, expenditures, and changes in fund balances	\$	<u><u>21,809</u></u>

Users/Outflows of Revenues:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$	19,532
The adjustments to convert to GAAP basis, recording of expenditures and liabilities not included in budget		<u>2,277</u>
Total general fund expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	\$	<u><u>21,809</u></u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Fiduciary Net Assets

Fiduciary Funds

December 31, 2003

	Pension trust fund	Agency funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 34,724,644	6,005,776
Investments:		
Equity	129,984,117	—
Fixed income	86,623,332	—
Mutual funds	109,969,819	—
Other receivables	—	14,340
Accrued interest and dividends receivable	952,571	—
Due from general fund	—	507,139
Due from other funds	—	271,239
Due from pension trust fund	—	116,631
Due from component units	—	949,274
	<u> </u>	<u> </u>
Total assets	362,254,483	7,864,399
	<u> </u>	<u> </u>
Liabilities		
Accrued liabilities and other payables	247,619	5,578,347
Due to general fund	—	269,083
Due to agency funds	116,631	—
Due to other governments	—	18,884
Deposits held in trust	—	1,998,085
Benefits and related withholdings payable	2,471,727	—
	<u> </u>	<u> </u>
Total liabilities	2,835,977	7,864,399
	<u> </u>	<u> </u>
Net assets		
Held in trust for pension benefits	\$ <u>359,418,506</u>	

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Fiscal Year ended December 31, 2003

	<u>Pension trust fund</u>
Additions (reductions):	
Contributions:	
Employer	\$ 9,735,146
Plan members	10,852,041
State	18,214,489
Total contributions	<u>38,801,676</u>
Investment income:	
Net appreciation in fair value of investments	62,513,423
Interest and dividends	9,341,287
	<u>71,854,710</u>
Less investment expenses	<u>(1,016,836)</u>
Net investment income	70,837,874
Miscellaneous:	
Other	147,661
	<u>147,661</u>
Total additions	<u>109,787,211</u>
Deductions:	
Benefit payments	60,525,683
Refund of employee contributions	1,095,538
Administrative expenses	1,218,449
	<u>62,839,670</u>
Net increase in plan net assets	46,947,541
Plan net assets, beginning of year	<u>312,470,965</u>
Plan net assets, end of year	<u>\$ 359,418,506</u>

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Net Assets

Component Units

December 31, 2003

Assets	URA	URA PDF Trust	Water and Sewer Authority	Stadium Authority	Public Parking Authority	Total
Current assets:						
Cash and cash equivalents	\$ 177,671,981	-	20,895,000	2,656,654	2,814,646	204,038,281
Cash and cash equivalents - restricted	56,302,640	2,357,398	-	-	-	58,660,038
Investments - unrestricted	-	-	-	-	2,571,061	2,571,061
Investments - restricted	422,269	3,822,140	-	-	8,887,561	13,131,970
Accounts receivable	-	-	14,893,000	-	557,214	15,450,214
Due from other governments	4,049,664	-	-	-	-	4,049,664
Grant receivable	-	-	-	2,591,876	-	2,591,876
Notes receivable	-	-	-	70,840	208,966	279,806
Inventory	-	-	1,462,000	-	-	1,462,000
Accrued interest	-	1,424	-	-	598,137	599,561
Other receivables	6,583,959	-	1,358,000	-	-	7,941,959
Other receivables - restricted	316,320	-	-	-	-	316,320
Prepaid expenses	-	-	180,000	-	-	180,000
Total current assets	245,346,833	6,180,962	38,788,000	5,319,370	15,637,585	311,272,750
Noncurrent assets:						
Restricted assets:						
Cash and cash equivalents	-	-	8,311,000	-	-	8,311,000
Investments	-	-	56,774,000	-	17,487,477	74,261,477
Accrued interest receivable	-	-	168,000	-	-	168,000
Accounts receivable - parking	-	-	-	79,570	-	79,570
Total restricted assets	-	-	65,253,000	79,570	17,487,477	82,820,047
Capital assets:						
Buildings and building improvements	30,403,219	-	-	-	-	30,403,219
Land and land improvements	15,077,285	-	-	-	18,926,067	34,003,352
Parking facilities	-	-	-	-	116,085,378	116,085,378
Machinery and equipment	-	-	102,167,000	-	4,427,517	106,594,517
Utility plant	-	-	394,370,000	-	-	394,370,000
Non-utility plant	-	-	14,067,000	-	-	14,067,000
Construction-in-progress	814,279	-	21,655,000	-	1,422,507	23,891,786
Less: accumulated depreciation	(7,660,450)	-	(106,808,000)	-	(47,881,691)	(162,350,141)
Net capital assets	38,634,333	-	425,451,000	-	92,979,778	557,065,111
Leasehold improvements	-	-	-	-	8,465	8,465
Other assets	2,114,738	-	-	-	-	2,114,738
Other assets - restricted	164,910	-	-	-	-	164,910
Assets held for sale	21,176,160	-	-	-	-	21,176,160
Assets held for sale - restricted	4,121,707	-	-	-	-	4,121,707
Loans/notes receivable	51,039,531	-	-	2,185,000	4,484,936	57,709,467
Loans/notes receivable - restricted	110,290,946	-	-	-	-	110,290,946
Deposits held for development fund	-	-	-	1,090,733	-	1,090,733
Bond issue costs, net of depreciation	-	-	6,384,000	20,834	1,383,218	7,788,052
Total noncurrent assets	227,542,325	-	497,088,000	3,376,137	116,343,874	844,350,336
Total assets	\$ 472,889,158	6,180,962	535,876,000	8,695,507	131,981,459	1,155,623,086
Liabilities and Net Assets						
Current liabilities:						
Bonds and loans payable, current portion	\$ -	1,570,000	11,975,000	1,860,000	3,130,000	18,535,000
Note due to City of Pittsburgh, current portion	-	-	-	1,415,000	-	1,415,000
Accrued payroll and related obligations	-	-	743,000	-	-	743,000
Accounts payable - City of Pittsburgh	-	-	-	-	216,771	216,771
Accounts payable - wastewater treatment	-	-	8,537,000	-	-	8,537,000
Deferred revenue	16,314,227	-	-	-	-	16,314,227
Accrued expenses and deferred income	-	-	-	-	886,060	886,060
Accounts payable and other accrued expenses	20,685,071	-	6,900,000	313,765	3,302,071	31,200,907
Accrued interest payable	-	-	6,230,000	98,333	954,125	7,282,458
Total current liabilities	36,999,298	1,570,000	34,385,000	3,687,098	8,489,027	85,130,423
Noncurrent liabilities:						
Deferred revenue	-	-	551,000	-	-	551,000
Accrued payroll and related obligations	-	-	1,209,000	-	-	1,209,000
Note due to City of Pittsburgh	-	-	-	11,755,000	-	11,755,000
Bonds and loans payable, net of current portion	201,904,811	51,055,000	533,863,000	3,929,994	78,143,770	868,896,575
Advances from the City of Pittsburgh	-	-	-	22,775,168	-	22,775,168
Total noncurrent liabilities	201,904,811	51,055,000	535,623,000	38,460,162	78,143,770	905,186,743
Total liabilities	238,904,109	52,625,000	570,008,000	42,147,260	86,632,797	990,317,166
Net assets:						
Invested in capital assets, net of related debt	17,985,178	-	(44,789,000)	-	16,000,812	(10,803,010)
Restricted for:						
Capital projects	-	-	9,254,000	-	1,880,909	11,134,909
Debt service	-	-	-	-	5,422,117	5,422,117
Public Parking Authority	-	-	-	-	12,484,150	12,484,150
Urban Development	26,139,389	-	-	-	-	26,139,389
Lending programs	144,795,207	-	-	-	-	144,795,207
Multi-family Housing Program	684,196	-	-	-	-	684,196
Unrestricted	44,381,079	(46,444,038)	1,403,000	(33,451,753)	9,560,674	(24,551,038)
Total net assets/(deficit)	\$ 233,985,049	(46,444,038)	(34,132,000)	(33,451,753)	45,348,662	165,305,920

See accompanying notes to financial statements.

CITY OF PITTSBURGH, PENNSYLVANIA

Statement of Activities

Component Units

For the Year Ended December 31, 2003

		<u>Program revenues</u>		
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Urban Redevelopment Authority				
Governmental activities:				
Urban development	\$ 38,531,132	-	37,385,477	4,730,587
General government	10,650,010	3,974,431	2,805,000	-
Interest on long-term debt	351,950	-	-	-
Total governmental activities	<u>49,533,092</u>	<u>3,974,431</u>	<u>40,190,477</u>	<u>4,730,587</u>
Business-type activities:				
Lending programs	26,152,936	9,757,015	264,658	-
Property management	2,912,966	2,836,650	-	-
Total business-type activities	<u>29,065,902</u>	<u>12,593,665</u>	<u>264,658</u>	<u>-</u>
Component units	<u>3,871,785</u>	<u>107,500</u>	<u>1,130,477</u>	<u>1,061,740</u>
Total URA	82,470,779	16,675,596	41,585,612	5,792,327
Urban Redevelopment Authority - PDF Trust				
General government	18,549	-	5,925,795	-
Interest on debt, net	<u>4,757,128</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total PDF Trust	4,775,677	-	5,925,795	-
Pittsburgh Water & Sewer Authority	83,635,000	65,187,000	-	-
Stadium Authority	2,373,166	1,338,567	-	5,410,749
Public Parking Authority	<u>29,201,023</u>	<u>27,702,469</u>	<u>-</u>	<u>222,480</u>
Total Component Units	202,455,645	110,903,632	47,511,407	11,425,556
			General revenues: Unrestricted investment earnings Gain (loss) on sale of assets Miscellaneous Transfers within URA Total general revenues Change in net assets Net assets-beginning Net assets-ending	

See accompanying notes to financial statements.

Net (expense) revenue and
changes in net assets

Urban Redevelopment Authority								
Governmental activities	Business-type activities	URA component units	URA PDF Trust	Water and Sewer Authority	Stadium Authority	Public Parking Authority	Total	
3,584,932							3,584,932	
(3,870,579)							(3,870,579)	
(351,950)							(351,950)	
<u>(637,597)</u>	-	-					<u>(637,597)</u>	
	(16,131,263)						(16,131,263)	
	(76,316)						(76,316)	
-	<u>(16,207,579)</u>	-					<u>(16,207,579)</u>	
		<u>(1,572,068)</u>					<u>(1,572,068)</u>	
(637,597)	(16,207,579)	(1,572,068)					(18,417,244)	
			5,907,246				5,907,246	
			<u>(4,757,128)</u>				<u>(4,757,128)</u>	
			1,150,118				1,150,118	
				<u>(18,448,000)</u>			<u>(18,448,000)</u>	
					4,376,150		4,376,150	
						<u>(1,276,074)</u>	<u>(1,276,074)</u>	
						(1,276,074)	(32,615,050)	
1,186,026	190,928	58,829	-	1,322,000	-	776,377	3,534,160	
(2,094,036)	-	1,868,656	-	-	-	-	(225,380)	
3,721,428	718,033	104,299	-	-	(144,160)	361,115	4,760,715	
1,500,000	<u>(1,500,000)</u>	-	-	-	-	-	-	
<u>4,313,418</u>	<u>(591,039)</u>	<u>2,031,784</u>	-	<u>1,322,000</u>	<u>(144,160)</u>	<u>1,137,492</u>	<u>8,069,495</u>	
3,675,821	(16,798,618)	459,716	1,150,118	(17,126,000)	4,231,990	(138,582)	(24,545,555)	
<u>144,067,491</u>	<u>98,158,756</u>	<u>4,421,883</u>	<u>(47,594,156)</u>	<u>(17,006,000)</u>	<u>(37,683,743)</u>	<u>45,487,244</u>	<u>189,851,475</u>	
\$ <u>147,743,312</u>	<u>81,360,138</u>	<u>4,881,599</u>	<u>(46,444,038)</u>	<u>(34,132,000)</u>	<u>(33,451,753)</u>	<u>45,348,662</u>	<u>165,305,920</u>	

**NOTES TO BASIC
FINANCIAL STATEMENTS**

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(1) Organization and Summary of Significant Accounting Policies

Description of City

The City of Pittsburgh, Pennsylvania (the City or primary government) was incorporated on July 20, 1816 and chartered as a home-rule municipality on January 5, 1976. The City operates under a strong mayor form of government and provides the following services as authorized by its charter: public safety (police, fire, and emergency medical services), highways and streets, sanitation, economic development, cultural and recreational, public improvements, planning and zoning, and general administrative services.

The major accounting principles and practices followed by the City are presented below to assist the reader in evaluating the financial statements and the accompanying notes.

(A) *The Financial Reporting Entity*

Consistent with the guidance contained in Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity*, the criteria used by the City to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) outside of the legal City entity within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the City reviews the applicability of the following criteria:

The City is financially accountable for:

1. Legally separate organizations if City officials appoint a voting majority of the organization's governing body and the City is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
 - a. **Impose its Will** – If the City can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. **Financial Benefit or Burden** – Exists if the City (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
2. Legally separate organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges or issue bonded debt without approval by the City.

Based on the foregoing criteria, the reporting entity has been defined to include all the legally separate-government entities for which the City is financially accountable or for which there is a significant relationship (component units). Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such organizations in the City's financial statements are provided in the following paragraphs. Audited financial statements for all of the component units are available for public inspection in the City Controller's office.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(B) Net Asset Deficit and Liquidity

As of December 31, 2003, the City, in its statement of net assets, has an unrestricted net asset unrestricted deficit of \$728.1 million. The deficit represents 2.3 years of primary government general revenue. This is principally the result of using general obligation debt over the years to finance projects that don't result in recording assets; specifically to fund the payments to the Pension Trust Fund (\$280 million outstanding as of December 31, 2003), the City's borrowings to finance economic development efforts (including projects of the City's Authorities, related principally to the URA), maintenance expenditures on city infrastructure, and equipment needs. As a result, the City's debt service related expenditures in its governmental funds were 21% of its total expenditures; and the City used 28% of its current tax revenues to finance the required debt service payments.

In November 2003, the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47) of the Commonwealth of Pennsylvania. The Commonwealth legislature also established an Intergovernmental Cooperation Authority (ICA) to provide fiscal oversight for the City for a period of seven years. The Act 47 coordinators appointed by the Commonwealth issued their five-year Recovery Plan, which was adopted by the City Council on June 29, 2004, making it a City ordinance. The Plan provides for a package of new revenues and significant expenditure reductions. On November 5, 2004 the City submitted for approval "The 2005 Operating and Capital Budgets and Five-Year Financial Forecast & Performance Plan" based on the approved Act 47 Recovery Plan. The ICA approved the City's submission enabling the City to move forward with City Council approval of the final 2005 budget. On November 21, 2004 the Commonwealth legislators approved a new package of revenue options. The City has incorporated these new taxes into its financial plan and 2005 operating budget, which were approved on December 20, 2004. Going forward, the Act 47 coordinators and the ICA will provide continued oversight to ensure compliance with the 2005 operating budget and approved five-year plan.

The City is projecting a cash balance at December 31, 2004 of negative \$1.2 million. In order to meet financial obligations until new tax revenues are collected in February 2005, the City has taken two steps. First, with the approval of the ICA, the City has obtained a commitment from a consortium of local banks to provide a \$40 million line of credit effective January 4, 2005, which was contingent upon final approval of the 2005 operating budget. Second, if necessary, the City will defer payment of its \$4 million RAD reimbursement obligation to the School District until the line-of-credit is exercised. The School District is in agreement with this deferral. New and current tax revenues in the first quarter of 2005 will allow for a repayment of the line-of-credit in the second quarter of the year.

(C) Individual Component Unit Disclosures

Blended Component Units

Some component units, despite being legally separate from the City government, are so intertwined with the City government, either through sharing common governing boards with the City or through providing services solely to the City, that they are, in substance, the same as the City government and are reported as part of the City government. The blended component units reported in this way are the following:

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

City of Pittsburgh Equipment Leasing Authority
Employee Pension Plans

City of Pittsburgh Equipment Leasing Authority (Equipment Leasing Authority)

The Equipment Leasing Authority (ELA) was incorporated in 1980 to serve as a financing vehicle for the acquisition of equipment. The Board consists of a Deputy Mayor, Directors of the Department of General Services and the Department of Finance, one member of City Council, and one individual designated by City Council.

Although it is legally separate from the City, the ELA is reported as if it were part of the City government, because its sole purpose is to finance the City equipment needs. Its operations are included within other governmental funds. It operates on a December 31 fiscal year.

Employee Pension Funds

The City has three defined benefit pension funds: the Municipal Pension Fund (Municipal); the Policemen's Relief and Pension Fund (Police); and the Firemen's Relief and Pension Fund (Fire), which together cover substantially all City employees. As required by Pennsylvania Law, a comprehensive board oversees funding and investing activities. This Board consists of seven members, four of whom are appointed by the Mayor.

Fund benefit matters are administered by separate boards which include, for all funds, the president of the City Council and the City Controller and, additionally, in the case of the Municipal and Fire plans, the Mayor.

The pension funds operate on a fiscal year ending December 31. Their operations are included as fiduciary funds financial statements.

Discretely Presented Component Units

Discretely presented component units are entities that are legally separate from the primary government but for which the primary government is financially accountable or whose relationship with the primary government is such the exclusion would cause the primary government's financial statements to be misleading or incomplete. As these component units do not meet the criteria for blended presentation, they are reported separately from the primary government. The component units presented in this manner are the following:

Pittsburgh Water and Sewer Authority
Stadium Authority of the City of Pittsburgh
Public Parking Authority of Pittsburgh
Urban Redevelopment Authority of Pittsburgh
Urban Redevelopment Authority of Pittsburgh – PDF Trust

Pittsburgh Water and Sewer Authority

The Pittsburgh Water and Sewer Authority (PWSA) was incorporated in February 1984 under the Municipality Authorities Act of 1945 to assume responsibility for the operation and improvement of the City's water distribution and wastewater collection systems. In 1984, pursuant to a Lease and Management Agreement, the Authority leased the entire City water supply, distribution, and

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

wastewater collection system (the System) from the City and assumed responsibility for establishing and collecting user fees and charges and for maintaining and improving the System. The Lease and Management Agreement provided for the City to operate and maintain the System for the Authority subject to the general supervision of the Authority.

The City and the Authority agreed to terminate the Lease and Management Agreement in July 1995 and concurrently entered into an Agreement and a Capital Lease Agreement (collectively referred to as the Agreements). The effect of these Agreements, as more fully described in Footnote 4, was to substantially transfer financial and management responsibility for the System to the Authority.

The Authority is legally separate from the City and is reported as a component unit. The Authority Board consists of one City Council member, the City Treasurer, the City Finance Director, and four members chosen by the Mayor, which allows the City to impose its will on the PWSA. The PWSA operates on a fiscal year ending December 31.

The Stadium Authority of the City of Pittsburgh (Stadium Authority)

The Stadium Authority of the City of Pittsburgh (Authority) was organized on July 1, 1965 to provide increased commerce and prosperity and to promote educational, cultural, physical, civic, social, and moral welfare to the general public.

The Authority was responsible for the management of the former Three Rivers Stadium (Stadium) located in the City. The Stadium was home to the Pittsburgh Pirates (Pirates) and Pittsburgh Steelers (Steelers) professional sports teams and was also utilized for various concerts and other events. Subsequent to the razing of the Stadium, the Authority is responsible for the development of the land between two newly constructed stadiums.

The board of directors (Board) of the Authority, a five-member group, is appointed by the Mayor of the City. The Board is responsible for all the activities and operations of the Authority. The City is the guarantor of the Authority's debt. The Stadium Authority operates on a fiscal year ending March 31.

Public Parking Authority of Pittsburgh (Parking Authority)

The Parking Authority was created for the purpose of acquiring, developing, and maintaining a coordinated system of public parking facilities. The Parking Authority is administered by a five-member board, all of whom are appointed by the Mayor. The Parking Authority obtains its revenue from user charges and from street parking meter revenues. Under an agreement between the Parking Authority and the City, street parking revenues are allocated 93.5% to the Parking Authority and 6.5% to the City. Accordingly, the City derives a financial benefit from the Parking Authority. The Parking Authority operates on a fiscal year ending September 30.

Urban Redevelopment Authority of Pittsburgh

The Urban Redevelopment Authority of Pittsburgh (the URA) was established in 1946 under the Pennsylvania Urban Redevelopment Law. The URA acquires and clears blighted property; initiates rebuilding with the private sector; negotiates with the federal, state, county, and local governments for public funds and facilities; and works to maintain and improve Pittsburgh neighborhoods and business districts. Funding for the URA projects and programs is obtained primarily through

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

intergovernmental grants. Additionally, the Authority has incurred note and bond indebtedness to finance specific programs.

The URA is considered to be a component unit of the City as the Mayor of Pittsburgh appoints the board of directors of the URA, and a financial benefit/burden relationship exists between the City and the URA. See Footnote 9(E) for further discussion of financial benefit/burden relationship. In addition, the City guarantees approximately 30% of the URA's debt.

The reporting entity of the URA includes the accounts of all URA operations as well as two entities, which qualify as component units of the URA under the provisions of GASB Statement No. 14. The component units of the URA are the URA Housing Corporation, the Pittsburgh Economic and Industrial Development Corporation, and the Pittsburgh Housing Development Corporation.

The URA and all its component units operate on a fiscal year ending December 31. Separate financial statements for these component units can be obtained through the Finance Department of the URA.

Urban Redevelopment Authority – PDF Trust

The URA created through a bond issue a separate legal trust to capitalize the URA's Pittsburgh Development Fund. The Trust's debt service is paid with an allocation of the City's Regional Asset District revenues on an annual basis. The Trust is not consolidated with the URA because the URA has no obligation to repay the debt with their resources. No separately issued financial statements are available for the Trust.

Complete financial statements of the individual component units can be obtained from their respective administrative offices.

Administrative Offices

City of Pittsburgh Equipment Leasing Authority City-County Building, 5th Floor 414 Grant Street Pittsburgh, PA 15219	Pittsburgh Water and Sewer Authority 441 Smithfield Street Pittsburgh, PA 15222
City of Pittsburgh Finance Department Combined Pension Trust Funds City-County Building 414 Grant Street Pittsburgh, PA 15219	Pittsburgh Parking Authority 232 Boulevard of the Allies Pittsburgh, PA 15219
Stadium Authority of the City of Pittsburgh 503 Martindale Street 4th Floor Pittsburgh, PA 15212	Urban Redevelopment Authority of Pittsburgh 200 Ross Street Pittsburgh, PA 15219

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Joint Venture

The Sports and Exhibition Authority of Pittsburgh and Allegheny County (formerly the Public Auditorium Authority)

The Public Auditorium Authority of Pittsburgh and Allegheny County (the Authority) was incorporated on February 3, 1954 pursuant to the Public Auditorium Law Act of July 29, 1953 as a joint authority organized by the City of Pittsburgh (the City) and Allegheny County (the County) to provide educational, cultural, physical, civic, and social events for the benefit of the general public. Effective November 1999, the Public Auditorium Authority legally changed its name to the Sports and Exhibition Authority of Pittsburgh and Allegheny County. The Authority is currently responsible for the management of the David L. Lawrence Convention Center (the Convention Center) and the Mellon Arena (formerly the Civic Arena) and leases the Benedum Center and the John Heinz History Center to other entities located in the City of Pittsburgh. The Authority is also responsible for the construction of the new Pittsburgh Steelers Sports, Inc. (Pittsburgh Steelers) football stadium (H.J. Heinz Field), the Pittsburgh Associates' (Pittsburgh Pirates) baseball park (PNC Park), the Convention Center expansion project, and various associated infrastructure improvements herein referred to collectively as the Regional Destination Financing Plan. For the year ended December 31, 2003, the Sports and Exhibition Authority's operating loss was \$40,735,976, and the change in net assets was a decline of \$19,243,209 and had total net assets of \$573,206,199.

The board of directors (the Board) of the Authority, a five-member group, is appointed by the City and County. The Board is responsible for the overall activities and operations of the Authority. The Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

On April 22, 2004, the SEA closed on a \$20 million loan from local banks to be used for both operating and capital needs. The following revenues are pledged for repayment of this loan: parking revenues generated at the Convention Center parking garage, sponsorship revenues, and discretionary hotel tax receipts. Additionally, as part of the transaction, the City and County reaffirmed their responsibilities under a 1978 Cooperation Agreement to finance the Convention Center's operating deficits, including principal and interest on this loan.

The Sports and Exhibition Authority operates on a fiscal year ending December 31. Complete financial statements for the Sports and Exhibition Authority can be obtained from its administrative office at 425 Sixth Avenue, Regional Enterprise Tower, Suite 1410, Pittsburgh, PA 15219.

The City's portion of debt subsidies for the Sports and Exhibition Authority for the year ended December 31, 2003 was \$537,585. The City does not collect any material tax amounts on behalf of the Sports and Exhibition Authority; and, there are no other related party transactions.

Related Organizations

Housing Authority of the City of Pittsburgh (Housing Authority)

The Housing Authority was established to acquire and maintain properties for the purpose of providing low-income housing for residents of the City. Rental charges and subsidies from Federal Housing and Urban Development grants are the principal revenue sources.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

The Housing Authority is administered by a seven-member board, all of whom are appointed by the Mayor. City Council approves five of the seven appointments. The City does not subsidize the operations of the Housing Authority and does not guarantee its debt service.

The Housing Authority operates on a fiscal year ending December 31.

Jointly Governed Organization

The Allegheny County Sanitary Authority (ALCOSAN) was organized under the Municipality Authorities Act of 1945 to collect, transport, and treat wastewater for the City of Pittsburgh and seventy-seven (77) other Allegheny County municipalities. ALCOSAN's board has seven members: three are appointed by the City, three are appointed by the County, and one is appointed jointly by the County and City. The City has no direct ongoing financial interest or responsibility for ALCOSAN. See Footnote 4 for transactions with the Pittsburgh Water and Sewer Authority.

(D) *Financial Statement Presentation*

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to people who use governmental financial information to make decisions. The basic financial statements and required supplementary information under GASB Statement No. 34 include:

Management's Discussion and Analysis (MD&A) – MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities in a narrative format. An analysis of the government's overall financial position and results of operations is included to assist users in assessing whether financial position has improved or deteriorated as a result of the year's activities. This is considered required supplementary information and is not a part of the basic financial statements.

Government-Wide Financial Statements – Financial statements prepared using the economic resources measurement focus and full accrual basis of accounting for all of the government's activities are required. These statements include all assets, liabilities, revenues, and expenses of the primary government and its component units, excluding fiduciary activities.

The effect of interfund activity has been eliminated from these statements. The City does not allocate indirect expenses. The government-wide statements segregate governmental activities, which are normally supported by taxes and intergovernmental revenues, and business-type activities, if any, which rely on user fees and charges for support. Component units, which are legally separate and discretely presented, are also segregated.

Statement of Net Assets – presents both governmental and business-type activities, if any, on the full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations.

Statement of Activities – presents the net cost of each individual function. Program revenues are presented as a reduction of the total cost of providing program services. Program revenues include

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charges for services, operating grants and contributions and capital grants that are directly associated with a specific function. Taxes and other revenue sources not reported as program revenue are included as general revenue.

Fund Financial Statements – These statements are very similar to financial statements presented in the previous model. However, the emphasis is now on major funds.

The City's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net assets, revenues, and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the basic financial statements in this report into two broad fund categories as follows.

Governmental Funds account for expendable financial resources. Governmental fund types use the flow of current financial resources measurement focus. The major governmental funds are:

General Fund – The general fund is the general operating fund of the City. It finances the regular day-to-day operations of the City. It is used to account for all financial revenues and expenditures, except those required to be accounted for in another fund.

Special Revenue Community Development Block Grant Fund – Community Development Fund is used to account for the cost of neighborhood development and improvement projects. These programs are financed primarily by the U.S. Department of Housing and Urban Development (HUD) under the Community Development Block Grant (CDBG) program. A substantive portion of the funds received under the program have been allocated to the Urban Redevelopment Authority of Pittsburgh.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Capital Projects Fund – A capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Other governmental funds – This fund includes all other nonmajor governmental funds.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, other governmental units, or other funds. The fiduciary funds are:

Pension Trust Fund – Accounts for the operations of the City's pension funds. It is accounted for in the same manner as a proprietary fund type. Measurement focus is upon determination of the change in net assets and financial position.

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Agency Funds – Accounts for assets held for, and due to, employee benefits, payroll withholding, deposits, and other. These funds are custodial in nature and do not involve measurement of results of operations.

The basic financial statements also include the statement of net assets (deficit) and statement of activities of the following component units:

Pittsburgh Water and Sewer Authority
Stadium Authority of the City of Pittsburgh
Public Parking Authority of Pittsburgh
Urban Redevelopment Authority of Pittsburgh
Urban Redevelopment Authority of Pittsburgh – PDF Trust

Budgetary Comparison Statements – The statements are presented to demonstrate whether resources were obtained and used in accordance with the government’s legally adopted budget for the general fund and the Community Development fund. The City revises the original budget over the course of the year for various reasons. Under the new reporting model, budgetary information continues to be provided and now includes a comparison of the government’s original adopted budget to the current comparison of final budget and actual results.

(E) Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental activities in the government-wide statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recognized when earned, and expenses are recognized when a liability has been incurred, regardless of the timing of related cash flows.

Governmental funds are accounted for using the current resource measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. General fund tax revenues are considered measurable when they have been levied. To be considered available and thus susceptible to accrual, the real estate taxes must be collected within the City’s period of availability of 60 days. Uncollected real estate taxes at the end of this period are reported as deferred revenues. Interest income and intergovernmental receivables (state and federal grants to the extent of allowable expenditures) are considered susceptible to accrual. The City considers all non-real estate taxes and other revenues reported in the governmental fund to be available if the revenues are collected within 90 days. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures and other long-term liabilities, such as workers’ compensation, accrued claims and judgments, and both short- and long-term compensated absences, are recorded only when payment is due and payable.

The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific situation.

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As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements, a reconciliation between the government-wide and fund financial statements is necessary. Page 20 presents a reconciliation of the net assets as reported on the Statement of Net Assets (pages 15 and 16) to total governmental fund balance as reported on the Balance Sheet – Governmental Funds (page 19). Page 22 presents a reconciliation of change in net assets as reported on the Statement of Activities (pages 17 and 18) and the total changes in fund balance as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (page 21).

Non-exchange transactions, in which the City receives value without directly giving value in return, include real estate and other taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

(F) *Cash and Cash Equivalents*

Cash and cash equivalents include all highly liquid investments, including trustee and restricted assets, with an original maturity of three months or less. Footnote 3, Deposits and Investments, provides a detailed disclosure regarding cash equivalents and investments held by the City.

(G) *Investments*

Investments in all funds are carried at fair value. Investments consist of direct obligations of the U.S. government, money market funds, corporate and other obligations, guaranteed investments, money market trust funds, and repurchase agreements. Footnote 3, Deposits and Investments, provides a detailed disclosure regarding cash equivalents and investments held by the City.

(H) *Due To/From Other Governments*

Outstanding balances between the City and other governments are reported as due to/from other governments.

(I) *Taxpayer Assessed Taxes Receivable*

Local wage taxes and other miscellaneous City taxes are recorded in the City's accounts as taxpayer assessed receivables and revenue at the time of the underlying transactions. Taxes for which there is an enforceable legal claim as of December 31, 2003 but which were levied to finance fiscal year 2004 operations have been recorded as deferred revenue until such time as the taxes become due.

(J) *Assets Held for Sale*

Assets held for sale relate mainly to land held by the URA with the intention of selling it to a third party for development. These assets are held at estimated net realizable value.

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(K) Loans Receivable

In the governmental funds, loans receivable are recognized when the loan is established for loans with terms of 30 years or less. In the governmental funds, the loan balances are fully offset by deferred revenue, as loan repayments are not considered to be available as current resources. Loans with amortization terms greater than 30 years or which are repayable on a contingent basis, such as the sale of the property or completion of development, are treated as grants for accounting purposes and are recorded as expenditures when disbursed.

In the proprietary funds, amortizing loans are recorded at their principal balance due less an allowance for uncollectible accounts.

It is the URA's policy to provide for future losses on loans based on an evaluation of the current loan portfolio, current economic conditions, and such other factors which, in the URA's judgment, may impact collectibility.

(L) Other Receivables

Other City accounts receivable are recorded in the City's accounts as other receivables when billed, less an allowance for uncollectible accounts.

(M) Capital Assets

Capital assets acquired or constructed by the City are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Gifts or contributions are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the estimated useful life of each capital asset. No depreciation expense is recorded for land and construction-in-progress. The estimated useful lives for capital assets are as follows:

Furniture and fixtures	3-5 years
Buildings and structures	25-50 years
Equipment	2-10 years
Infrastructure	20-50 years
Vehicles	2-10 years

(N) Workers' Compensation

The City is self-insured for purposes of workers' compensation benefits. Provisions are recorded in the governmental fund financial statements as a current liability for benefits estimated to be due, mature, and payable from current financial resources as of December 31, 2003. Both short- and long-term amounts payable are reported within the government-wide financial statements only.

In order to qualify for and maintain self-insurance status, the City must comply with certain Commonwealth of Pennsylvania requirements. The requirements for 2003 are as follows:

Maintain an irrevocable trust fund. The City's contribution to the fund is determined annually in negotiations with the Commonwealth of Pennsylvania Department of Labor.

Satisfy the financial responsibility requirements of the Commonwealth of Pennsylvania.

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Establish liability reserves based upon expected future payments for all claims outstanding one year or more at the end of any fiscal year.

Presently, the irrevocable trust may be used by the State of Pennsylvania only in the event of default by the City under the self-insurance regulations. No risk financing activity is currently being recorded in this trust fund.

The Water and Sewer Authority is also self-insured for general liability coverage and has established a Self-Insured Escrow Fund (general liability) to cover potential liability claims.

(O) *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused compensated absences. For government-wide reporting, a liability is recorded for compensated absences when services are rendered, and employees have earned the right to receive compensation for such services.

Liabilities for compensated absences are not liquidated until leave is actually taken by employees or leave balances are paid upon termination. Accordingly, in the fund financial statements for governmental funds, no expenditure is reported for compensated absences until they are due and payable. Current and noncurrent portions of compensated absences totaling \$32,034,934 are recorded in the governmental activities, in the government-wide statements, and represent a reconciling item between the government-wide and fund presentations.

An additional amount for employer FICA that is directly associated with the payment of compensated absences is accrued.

(P) *Pensions*

Because the City has had no prior excess contributions or contribution deficiencies, its annual pension cost on the accrual basis is equivalent to its actuarially determined annual required contributions (see Footnote 7). Pension expenditures are recognized under the modified accrual basis within governmental funds to the extent of City contributions. Contributions made to the plans represent 100% of the minimum municipal obligation as well as other postemployment benefits.

(Q) *Long-Term Obligations*

Long-term debt and other long-term obligations are reported as liabilities in governmental activities in the Statement of Net Assets in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt in the government-wide financial statements. Bond premiums, discount, and issuance costs are recorded as current period costs in the governmental funds.

(R) *Interfund Transactions*

On fund financial statements, receivables and payables resulting from outstanding balances are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of the Statement of Net Assets. Flow of cash or goods from one fund to another without a requirement for repayment is reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

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(S) Encumbrances

The City uses encumbrance accounting for budgetary reporting, wherein purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Funding for all encumbrances lapses at year-end, and reappropriation is required by the City Council with the exception of capital fund project encumbrances.

(T) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation, and related debt used in the acquisition or construction of capital assets. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(U) Use of Estimates

Management of the City has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(2) Budgets and Budgetary Accounting

1. **General Budget Policies** – As required by the Home Rule Charter, the City follows these procedures in establishing the budgetary data reflected in the financial statements:
 - a. On the second Monday of November preceding the fiscal year, the Mayor presents to City Council a general fund and Community Development Fund operating budget and a capital budget for the succeeding fiscal year.
 - b. Public hearings are conducted to obtain the advice of other officials and citizens as part of the preparation of these budgets.
 - c. Before the beginning of the fiscal year, City Council adopts, by resolution, these budgets.
 - d. The adoption of the operating and capital budgets constitutes an appropriation or setting apart of funds from general resources of the City for purposes set forth in the budgets.
 - e. City Council may amend, by resolution, the operating budget within five weeks after the beginning of the fiscal year, but not thereafter except with the approval of the Mayor. The capital budget may, by resolution, be amended by Council at any time.
 - f. City Council at all times may, by resolution, transfer funds from one account to another if the total operating budget amount is not exceeded. No revision to the budget may be made without City Council approval. The operating budget shall, in any event, remain balanced at all times.

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- g. The capital budget is generally based on a proposed six-year capital program, which must be updated each year and submitted to City Council by the Mayor at least 30 days prior to the day the operating budget is submitted. The capital budget also includes appropriations for the Community Development Fund. Budget and actual data for the Community Development Fund is reflected in the Community Development Fund. The remainder of the capital budget is reflected in the capital projects fund.
 - h. Formal budgetary integration is employed as a management control device for the general, the Community Development, and the capital projects funds. Formal budgetary integration is not employed for the debt service fund since effective budgetary control is alternatively achieved through general obligation bond indenture provisions, nor for the other governmental funds since control is achieved through grant provisions or legislative action. Budgets for the Community Development and the capital projects funds are prepared on a project basis. The general, Community Development, and capital projects funds have legally adopted annual budgets.
 - i. All budgets are prepared and controlled at the department level on a line item basis (i.e., salaries, supplies, equipment, miscellaneous services). Due to the voluminous number of projects, separately issued line item capital budget reports are available from the City Controller's Office. The general fund budget to actual comparison at the legal level of appropriation is located within the basic financial statements.
 - j. Operating appropriations lapse at year-end. City Council can, however, authorize, by resolution, the carryover of appropriations to the following year. The Community Development and capital projects funds appropriations carryover to subsequent years without formal reappropriation.
 - k. Operating budget figures are as amended by City Council with Mayoral approval. These budget amendments represent line item transfers between expenditure accounts and carryover of appropriations from the previous year. The original approved general fund budget included revenues and expenditures of \$386.4 million and \$395.8 million in 2003, respectively. The differences between budgeted revenues and expenditures is the authorized use of beginning year fund balance of \$9.4 million. The budgetary expenditures, as amended, include carryover appropriations and other changes approved by City Council during 2003.
2. **Budget Basis of Accounting** – The general fund budget is adopted on a cash basis. Budgeted encumbrances for purchase commitments are treated as restrictions of available cash and as expenditures. Budgets in capital projects funds are also adopted on a cash basis, except that budgets for each project are adopted on a project basis, which may encompass a period longer than one year. Accordingly, budget figures, as amended, for Community Development and capital projects reflect current year appropriations and unexpended prior year's appropriations.

(3) Deposits and Investments

The bank balances of cash and cash equivalents of the City and its component units are classified into three categories to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes deposits insured or collateralized with securities held by a City entity or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the counterparty's trust

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department or agent in the City's name. Category 3 deposits are those which are uncollateralized or which are collateralized with securities held by the counterparty or by the trust department or agent but not in the City's name. Deposits classified as Category 3 are secured by pooled collateral held by an agent of the City's banks in the bank's name as permitted by Act 72 of the Commonwealth of Pennsylvania, dated August 6, 1971 (Act 72).

Investments of the City and its component units are classified into three categories to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments insured or registered or securities held by a City entity or its agent in the City's name. Category 2 includes uninsured and unregistered investments with the securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments with the securities held by the counterparty or by its trust department or agent but not in the City's name.

The Trust's investments in mutual funds have not been categorized because the mutual funds are open-end funds not evidenced by securities held by either the Trust, the individual plans, or the counterparty.

The City's cash and investments are subject to varying investment policies and custodial arrangements. Deposits and investments as of December 31, 2003, except the Stadium Authority, which is as of March 31, 2003, and the Public Parking Authority, which is as of September 30, 2003, are as follows:

Primary Government	Category			Non-categorized	Cost	Fair value
	1	2	3			
City of Pittsburgh:						
Certificate of deposit	\$ 4,900,000	—	—	—	4,900,000	4,900,000
Short-term institutional funds	—	—	10,700,000	—	10,700,000	10,700,000
U.S. government and agency obligations	—	—	62,011,013	—	62,011,013	62,336,082
Total investments	4,900,000	—	72,711,013	—	77,611,013	77,936,082
Total deposits	3,519,077	—	—	—	3,519,077	3,519,077
Total deposits and investments	\$ 8,419,077	—	72,711,013	—	81,130,090	81,455,159

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Component Units - Unrestricted	Category			Non-categorized	Cost	Fair value
	1	2	3			
Stadium Authority:						
Money market pooled investments	\$ 57,763	—	4,733	—	62,496	62,496
Investments not subject to categorization						
Money market pooled investments	—	—	—	2,838,420	2,594,158	2,594,158
Total	\$ 57,763	—	4,733	2,838,420	2,656,654	2,656,654
PWSA:						
Deposits	\$ 588,000	—	20,712,000	—	21,300,000	20,895,000
Public Parking Authority:						
Investments not subject to categorization						
Mutual funds	\$ —	—	—	5,292,211	5,292,211	5,292,211
Deposits	93,496	—	—	—	93,496	93,496
Total	\$ 93,496	—	—	5,292,211	5,385,707	5,385,707
URA:						
U.S. government and agency obligations	\$ 4,371,339	—	78,453,546	—	82,824,885	79,315,819
Investments not subject to categorization						
Guaranteed investment agreements	—	—	—	37,064,096	37,064,096	37,064,096
Pooled Investment Fund	—	—	—	20,876,760	20,876,760	20,876,760
Total investments	4,371,339	—	78,453,546	57,940,856	140,765,741	137,256,675
Total deposits	755,342	—	40,728,163	—	41,483,505	40,415,306
Total deposits and investments	\$ 5,126,681	—	119,181,709	57,940,856	182,249,246	177,671,981
URA						
Total investments - unrestricted component units	\$ 4,429,102	—	78,458,279	66,071,487	148,714,606	145,205,540
Total deposits - unrestricted component units	\$ 1,436,838	—	61,440,163	—	62,877,001	61,403,802
Total deposits and investments - unrestricted component units	\$ 5,865,940	—	139,898,442	66,071,487	211,591,607	206,609,342

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Component Units - Restricted	Category			Non-categorized	Cost	Fair value
	1	2	3			
PWSA:						
Repurchase agreements	\$ —	—	8,309,000	—	8,309,000	8,309,000
U.S. government and agency obligations	—	—	1,816,000	—	1,816,000	1,816,000
Investment agreements	—	—	—	46,262,000	46,262,000	46,262,000
Money market funds	—	—	—	2,000	2,000	2,000
Local government securities	—	—	8,696,000	—	8,696,000	8,696,000
Total investments	—	—	18,821,000	46,264,000	65,085,000	65,085,000
Total deposits	—	—	—	—	—	—
Total deposits and investments	\$ —	—	18,821,000	46,264,000	65,085,000	65,085,000
Public Parking Authority:						
Mutual fund	\$ —	—	—	23,653,888	23,653,888	23,653,888
Total investments	—	—	—	23,653,888	23,653,888	23,653,888
Total deposits	2,597,273	—	—	—	2,597,273	2,721,150
Total deposits and investments	\$ 2,597,273	—	—	23,653,888	26,251,161	26,375,038
URA:						
Investment not subject to categorization						
Pooled Investment Fund	\$ —	—	—	56,724,909	56,724,909	56,724,909
Total investments	—	—	—	56,724,909	56,724,909	56,724,909
Total deposits	—	—	—	—	—	—
Total deposits and investments	\$ —	—	—	56,724,909	56,724,909	56,724,909
URA PDF Trust:						
Short-term institutional funds	\$ —	—	3,822,140	—	3,822,140	3,822,140
Total investments	—	—	3,822,140	—	3,822,140	3,822,140
Deposits	—	—	—	2,357,398	2,357,398	2,357,398
Total deposits and investments	\$ —	—	3,822,140	2,357,398	6,179,538	6,179,538
Total investments - component units - restricted	\$ —	—	22,643,140	126,642,797	149,285,937	149,285,937
Total deposits - component units - restricted	\$ 2,597,273	—	—	2,357,398	4,954,671	5,078,548
Total deposits and investments - component units - restricted	\$ 2,597,273	—	22,643,140	129,000,195	154,240,608	154,364,485

Pension Trust - Unrestricted	Category			Non-categorized	Cost	Fair value
	1	2	3			
City of Pittsburgh:						
Preferred and common stocks	\$ —	107,512,804	—	—	107,512,804	129,984,117
U.S. government and agency obligations	—	34,389,893	—	—	34,389,893	34,286,666
Corporate and other obligations	—	47,790,999	—	—	47,790,999	52,336,666
Investments not subject to categorization						
Mutual funds	—	—	—	119,038,806	119,038,806	109,969,819
Total investments	—	189,693,696	—	119,038,806	308,732,502	326,577,268
Cash	193,634	2,577,582	—	—	2,771,216	2,771,216
Short-term institutional funds	—	—	31,953,338	—	31,953,338	31,953,338
Total deposits and investments	\$ 193,634	192,271,278	31,953,338	119,038,806	343,457,056	361,301,822

Agency Funds	Category			Non-categorized	Cost	Fair value
	1	2	3			
Employee benefits:						
Deposits	\$ 200,000	—	771,028	—	971,028	971,028
Payroll withholdings:						
Deposits	148,746	—	1,000,000	—	1,148,746	1,148,746
Deposits:						
Deposits	100,000	—	3,171,726	—	3,271,726	3,271,726
Other:						
Deposits	100,000	—	514,276	—	614,276	614,276
Total deposits in agency funds	\$ 548,746	—	5,457,030	—	6,005,776	6,005,776

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(A) Governmental Funds and Agency Funds

Cash balances available for investment by most City funds are maintained in pooled bank and investment accounts to improve investment opportunities. Income from investment of pooled cash is recorded in the general fund. Certain unrestricted and restricted cash and short-term investment balances in the accompanying balance sheet represent the undivided interest of each respective fund in the pooled accounts.

Under the Pittsburgh City Code, the Director of Finance is responsible for the overall management of the investment program. Policies established by the Director of Finance permit the City to invest in the following:

1. U.S. Treasury Securities (bills, notes, bonds).
2. Obligations of specific agencies of the federal government where principal and interest is guaranteed by the U.S. government.
3. Fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations accepted as depository institutions under the Pittsburgh City Code.
4. Money market mutual funds authorized by City Council whose portfolio consists of government securities issued by the U.S. government and that are fully guaranteed as to principal and interest.
5. Local government investment pools and or trusts as approved by the state legislature or City Council from time to time.
6. Repurchase agreements collateralized by the U.S. Treasury securities and marked to market. In order to participate in the repurchase agreement market, a depository must execute a master repurchase agreement contract with the City.

To ensure adequate liquidity, at least 10% but no more than 40% of the portfolio shall be in overnight repurchase agreements, money market funds, or other secure and liquid forms of acceptable investments. Unless specifically matched to a cash flow, at least 20% of the portfolio shall mature within 91 days with the maximum maturity of any investment to be no longer than one year from the date of purchase unless specifically approved in writing by the Director of Finance.

The City maintains compensating balances with some of its depository banks to offset specific charges for check clearing and other services.

(B) Pension Trust

Investments:

Some of the Trust's investments are in investment pools that are managed by professional asset managers. By participating in the pooling of assets with other large investors, the costs associated with asset management; and, therefore, the costs passed on to each individual investor are reduced. The Trust's Board perceives this to be an appropriate way to reduce investment management fees and administrative expenses while continuing to adhere to the established investment guidelines.

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The pension trust funds, whose deposits and investments are held separately from those of the City, are assigned to professional money managers that specialize in certain types of investments. The investment alternatives of these money managers are generally restricted to those in which they specialize.

The City of Pittsburgh is responsible for funding of the retirement benefits for the three pension funds described in Footnote 7. Investments of the funds are held by the Comprehensive Municipal Trust Fund ("Comprehensive Trust"). The assets of the Comprehensive Trust are invested under the direction of the Board with the assistance of the Executive Director and an outside investment consultant. The investment consultant serves as a manager of the 12 to 18 independent money managers of the fund.

The assets of the fund consist of two components: (1) the Operating Fund and (2) the Long-Term Assets Fund. The Operating Fund's purpose is to provide the general cash flow requirements of the fund and to fund the benefits/operating payments of the three plans. The Long-Term Assets Fund is designed to achieve growth in terms of both capital appreciation and income toward funding the unfunded pension liability.

Operating Fund investments are limited to U.S. Treasuries with maturities less than ten years; federal agencies, commercial paper, bank acceptances, and certificates of deposit (CD) with maturities less than 270 days and approved by PNC Fixed-Income Research; repurchase agreements with maturities less than 91 days; asset-backed securities rated "AAA" by Standard & Poor's or Moody's; collateralized mortgage obligations (CMO) backed by U.S. federal agencies with average life and prepayment restrictions; corporate and municipal bonds rated "AA" or better by Standard & Poor's or Moody's.

Except for issues guaranteed directly or indirectly by the U.S. government, the combined holdings of securities from one issuer may not constitute more than 10% of the Operating Fund at the time of purchase. Except for direct U.S. government treasury issues, a maximum of 30% of the market value of the holdings may be invested in any one government agency; also no more than 10% of the market value may be invested in any single bank issue at time of purchase.

The Long-Term Assets Fund requires an asset mix of 65% (\pm 10%) equities and 35% (\pm 10%) fixed income securities or other investments specifically authorized by the Board. Each class is to have a minimal cash reserve allocation. Acceptable investments include: equities – high quality common stocks or convertible securities; fixed income securities – including U.S. Treasury and agency issues, U.S. corporate bonds, mortgage related securities, Yankee Notes/Bonds; and cash equivalents – U.S. Treasury bills and repurchase agreements, money market funds, commercial paper, and CDs of the custodian bank.

The Trust invests in asset-backed securities to maximize yields. Such securities market values may be affected by the cash flows from principal and/or interest payments received on the underlying assets. Thus the market values could be sensitive to prepayments, delinquencies, and interest rate changes.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

The following summarizes pension trust fund investments as of December 31, 2003, which individually are 5% or more of net assets available for benefits, at fair value:

Hirtle Callaghan Trust International Equity Portfolio Fund #8	\$	41,717,063
SSGA Russell 1000 Growth Fund		23,563,813
Hirtle Callaghan High Yield Bank Portfolio, Fund #12		23,798,266

(C) *Water and Sewer Authority*

The Water and Sewer Authority (the Authority) is authorized to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; fully insured or collateralized certificates of deposit; commercial paper of the highest rating; repurchase agreements collateralized by government obligations or securities and highly rated bank promissory notes or investment funds or trusts; and, as to trustee assets, as otherwise permitted by the trust indenture as supplemented and amended in 1998. Throughout the year ended December 31, 2003, the Authority invested its funds in such authorized investments.

(D) *Stadium Authority*

The carrying amounts of the Stadium Authority included cash deposits and money market pooled investments held with banks as of March 31, 2003.

(E) *Public Parking Authority*

Investments include principally U.S. government obligations, corporate notes, municipal bonds, money market funds, and certificates of deposit. These investments are stated at fair value and amortized cost, as applicable. If an investment has face value different from the original cost, the Authority records the investment at amortized cost. Terms and agreements of the Authority restrict the majority of the investments.

(F) *Urban Redevelopment Authority and PDF Trust*

The URA is authorized to make investments of the following types pursuant to the Redevelopment Act, which requires investments meet a "reasonable man" standard. Under the URA's policy, authorized investments include (1) United States Treasury bills, (2) short-term obligations of the United States government or its agencies or instrumentalities, (3) deposits in savings accounts or time deposits or share accounts of institutions which are insured, (4) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision thereof, and (5) shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the investments of that company meet the criteria of (1) through (4) above.

The deposit and investment practices of the URA and its component units adhere to statutory and contractually required and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts and certificates of deposit. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the trust indentures.

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Notes to Basic Financial Statements

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(4) Transactions With the Pittsburgh Water and Sewer Authority

In July 1995, the City entered into a Cooperation Agreement and a Capital Lease Agreement (collectively referred to as the Agreements with the Water and Sewer Authority (the Authority)).

(A) Cooperation Agreement

On January 1, 1995, the City water department employees became employees of the Authority. The Authority assumed workers' compensation and compensated absence liabilities, which had accrued during the era of the City's Water Department.

Direct costs of the System's water operations are now generally paid directly by the Authority under the Cooperation Agreement. The City continues to provide the Authority with various services in accordance with the Cooperation Agreement, and the Authority reimburses the City for direct and indirect costs attributed by the City to the operation and maintenance of the System. Such reimbursements were approximately \$1.9 million in 2003.

Under the Agreements, the Authority provides up to 600 million gallons of water annually for the City's use without charge. The Authority also continues to reimburse the City for the cost of subsidizing water service to those residents of the City situated beyond the Authority's service area so that those water users pay charges, which mirror the rates of the Authority. In 2003, the Authority reimbursed \$3,186,000 to other City water companies on behalf of the City.

(B) System Lease

The City and Authority entered into a Capital Lease Agreement (the Capital Lease), effective July 27, 1995, with a term of thirty years, commencing as of July 15, 1995, and ending on September 1, 2025. The Capital Lease stipulates minimum lease payments of approximately \$101,000,000, including interest, all of which have been paid. The Authority has the option to purchase the System in 2025 for \$1.

As of December 31, 2003, the City has retained the pension obligation for the Authority's employees who participate in the City's Municipal Pension Plan. The extent of the Authority's participation in such obligation with respect to these employees whose membership continued upon becoming employees of the Authority is determined by the shared interpretation of the City and the Authority of the intent of the Cooperation Agreement.

Uncertainty exists about the future obligation of the Authority and its employees to make contributions to the Plan. Such contributions are contingent upon the continuing eligibility of the Authority's employees to participate in the City's Plan. Eligibility for ongoing employee participation in the City's Plan could end if the Authority were to introduce another pension plan. At this time, the Authority and City have no definite plans to establish another pension plan for the Authority, other than an agreement in principle that the Authority should have its own plan in the future. Future obligations of the Authority to make contributions to the Plan may also be subject to other amendments of the existing arrangement agreed upon by the Authority and the City.

See additional related party transaction disclosures for the Urban Redevelopment Authority, Stadium Authority, and Public Parking Authority in Footnote 9.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

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(5) Real Estate Taxes

The City has the power to levy and collect ad valorem taxes on all taxable real estate within its boundaries. Real estate is assessed by the Allegheny County Office of Property Assessment pursuant to the terms of the General County Assessment Law and the Second Class County Assessment Law, which require property to be assessed at actual market value. Property is assessed by the board at 100% of fair market value. All real property in the County is required to be reassessed every three years.

A unified tax levy for land and buildings is made annually on January 1 and collected by the City. Taxes are payable annually or in three installments, at the taxpayers' option, normally due the last day of February, April 30, and July 31. A 2% discount is allowed on either the first installment or the full year tax payment, normally if paid by February 10. If no payment is received by the last day of February, the installment payment privilege is forfeited, and the entire tax for the year is considered delinquent. Penalty and interest is imposed on delinquent payments.

Delinquent taxes are liened every three years after the levy date. The City provides programs of tax abatement, administered by the County, for new construction and rehabilitation of residential and commercial/industrial properties pursuant to Commonwealth legislative authority. The residential abatement program provides for the abatement of taxes for a period of three years on the increased assessment attributable to new construction or rehabilitation up to an annually indexed average housing construction cost ceiling. The City makes tax abatements available for commercial/industrial properties for the assessment increase attributable to new construction.

Property Tax Reassessments

The City of Pittsburgh, as part of Allegheny County, had all property reassessed for the year 2001. Assessments are now based on 100% of market value. Due to the magnitude of the changes from the previous assessments, particularly in the ratio of land to building values, the City of Pittsburgh was forced to abandon its two-tiered or bifurcated tax, which had been in existence since 1913. The City of Pittsburgh now taxes land and building at the same unified rate and plans to maintain a unified rate unless land values are reassessed in the future.

City and School Real Estate Taxes (property taxes) are based on the assessed value of the property as determined by the Allegheny County Board of Assessors. The assessed value of a property is broken down by land value and building value. The City of Pittsburgh's tax rate is 10.8 mills on the assessed value of the property. The School District of Pittsburgh's tax rate is 13.92 mills assessed value. A mill is 1/10 of a cent. For example, on a property assessed at \$1,000, the City of Pittsburgh Real Estate tax would be \$10.80. The School District of Pittsburgh Real Estate tax would be \$13.92.

Taxes are billed on a calendar year. There are three tax relief programs in the City of Pittsburgh. They are: Homestead, Senior tax relief, and Gentrification.

Over 180,000, or over 36%, of property owners out of approximately one-half million in Allegheny County have filed property tax appeals contesting their new assessments for the three years beginning January 1, 2004.

The City has accrued for tax refunds and tax credits within accounts payable on the statements of net assets and governmental funds (general) balance sheet for payments received that are subject to refund.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

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(6) Capital Assets

A summary of capital asset activity for the year ended December 31, 2003 is as follows:

	<u>Balances</u> <u>January 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>December 31, 2003</u>
Governmental activities:				
Non-depreciable assets:				
Land	\$ 45,602,091	—	—	45,602,091
Construction-in-progress	16,247,142	11,981,142	(23,433,681)	4,794,603
Total	61,849,233	11,981,142	(23,433,681)	50,396,694
Depreciable assets:				
Buildings and systems	90,522,829	2,471,828	—	92,994,657
Accumulated depreciation	(69,755,698)	(1,918,690)	—	(71,674,388)
Net buildings and systems	20,767,131	553,138	—	21,320,269
Furniture and fixtures	7,027,018	329,374	—	7,356,392
Accumulated depreciation	(6,631,177)	(309,384)	—	(6,940,561)
Net furniture and fixtures	395,841	19,990	—	415,831
Machinery and equipment	1,765,220	4,094	—	1,769,314
Accumulated depreciation	(1,706,451)	(16,257)	—	(1,722,708)
Net machinery and equipment	58,769	(12,163)	—	46,606
Vehicles	39,999,445	3,560,711	(2,156,544)	41,403,612
Accumulated depreciation	(29,790,214)	(3,422,099)	2,111,744	(31,100,569)
Net vehicles	10,209,231	138,612	(44,800)	10,303,043
Infrastructure	136,339,628	35,515,585	—	171,855,213
Accumulated depreciation	(54,464,020)	(7,357,292)	—	(61,821,312)
Net infrastructure	81,875,608	28,158,293	—	110,033,901
Total depreciable assets	275,654,140	41,881,592	(2,156,544)	315,379,188
Total accumulated depreciation	(162,347,560)	(13,023,722)	2,111,744	(173,259,538)
Net total depreciable assets	113,306,580	28,857,870	(44,800)	142,119,650
Governmental activities capital assets, net	\$ <u>175,155,813</u>	<u>40,839,012</u>	<u>(23,478,481)</u>	<u>192,516,344</u>

CITY OF PITTSBURGH, PENNSYLVANIA

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Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 2,467,047
Public safety	2,073,937
Highways, streets, and other capital improvements	5,822,864
Public works	857,410
Culture and recreation	<u>187,534</u>
Total depreciation expense - governmental activities	\$ <u><u>11,408,792</u></u>

Component unit's capital asset activity for the year ended December 31, 2003 was as follows:

	Balances		Deletions/		Balances
	January 1, 2003	Additions	transfers		December 31, 2003
Component Units:					
Non-depreciable assets:					
Land	\$ 39,798,147	688,086	(6,482,881)		34,003,352
Construction-in-progress	15,392,910	17,685,924	(9,187,048)		23,891,786
Depreciable assets:					
Buildings and building improvements	20,310,599	10,092,620	—		30,403,219
Parking facilities	114,770,892	1,341,719	(27,233)		116,085,378
Machinery and equipment	106,682,966	329,607	(418,056)		106,594,517
Utility plant	375,390,000	18,980,000	—		394,370,000
Non-utility plant	<u>10,525,000</u>	<u>3,542,000</u>	<u>—</u>		<u>14,067,000</u>
Total depreciable assets	627,679,457	34,285,946	(445,289)		661,520,114
Less accumulated depreciation	<u>(142,751,674)</u>	<u>(19,724,698)</u>	<u>126,231</u>		<u>(162,350,141)</u>
Net component units capital assets	\$ <u><u>540,118,840</u></u>	<u><u>32,935,258</u></u>	<u><u>(15,988,987)</u></u>		<u><u>557,065,111</u></u>

(7) Pension Plans

(A) Organization and Description of Plans

The City of Pittsburgh is responsible for the funding of retirement benefits for the three pension funds described below. Investments of the funds are held by the Comprehensive Municipal Pension Trust Fund (Comprehensive Trust), in accordance with the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205), and are administered under the direction of that fund's board.

In accordance with Act 205 and the Acts under which the Municipal Pension Fund of the City of Pittsburgh, the Policemen's Relief and Pension Fund of the City of Pittsburgh, and the Firemen's Relief and Pension Fund of the City of Pittsburgh were established; a separate accounting for the activities of these three funds is maintained including the employees' contributions, allocation of state aid and the City's annual contribution and a calculation of each Fund's undivided interest in the investments held by the Comprehensive Trust. Additionally, separate actuarial valuations are

CITY OF PITTSBURGH, PENNSYLVANIA

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performed annually for each fund. However, the individual funds do not record the undivided interest in the investments in their individual funds since the assets of the Comprehensive Trust are available for the payments of benefits and expenses of any of the three pension funds without limitations. Therefore, in accordance with Government Accounting Standards, the City is considered to be administering a single plan for financial reporting purposes. The three pension trust funds plus the Comprehensive Trust constitute the City's Pension Plan.

The retirement funds issue a publicly available combined financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling the following:

City of Pittsburgh
Combined Pension Trust Funds
C/O Department of Finance
City/County Building
Pittsburgh, PA 15219

The Municipal Pension Fund

The Municipal Pension Fund of the City of Pittsburgh (the Fund) was established by Act 259 of May 28, 1915, P.L. 596. Every full-time employee of the City of Pittsburgh and the Pittsburgh Water and Sewer Authority (PWSA) who is not covered by the Policemen's Plan or the Firemen's Plan is required to join the Plan after serving a 90-day probationary period. The Fund is a single employer defined benefit plan, and its purpose is to provide retirement, disability, and other benefits to its members. The City of Pittsburgh and members of the Fund are required to make contributions to the Fund for the purpose of paying benefits and administrative expenses. At January 1, 2003, the date of the most recent actuarial valuation, the Fund has 3,967 total members of which 2,352 are active members; 1,590 retirees, disabled, and survivors; and 25 terminated but vested members.

Effective January 1, 1995, the City terminated employment of the 255 employees of its Water Department. As part of a Cooperation agreement with PWSA, the 255 terminated employees became employees of PWSA. The new PWSA employees' membership in the Municipal Plan continues with no break in service, as provided for by the Municipal Pension Act, because PWSA has no retirement plan. The City considers PWSA a part of the reporting entity and thus believes the plan continues to be a single employer plan. As of the date of these financial statements, no separate allocations of contributions to the Plan, Plan assets, or Plan liabilities have been allocated to the employees of PWSA, nor have any actuarial determinations been made. PWSA reimburses the City's general fund for its portion of employer contributions in an amount which is not actuarially determined.

Retirement benefits are available at the employee's option upon attainment of age 60, and completion of 20 years of service, normal retirement. A plan member is eligible for early retirement upon attainment of age 50 and completion of eight years of service. For early retirees, benefit payments may be deferred until 60 years of age, or paid immediately at reduced amounts, as defined by the Plan. Upon completion of eight years of service and attainment of age 40, an employee may terminate and remain eligible to receive benefits by continuing to make contributions to age 50. An employee who was a member prior to January 1, 1975 may terminate at any age after 15 years of service and be vested by continuing contributions to age 50.

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Employees who become permanently disabled during the performance of their duties and who are unable to continue to perform those duties are eligible to receive a disability pension. Employees who become otherwise disabled are eligible for a disability pension if eight years of service have been completed.

Retirement benefits for employees, who were members of the Plan prior to January 1, 1975, equal 60% of three-years average pay, but no less than \$130 monthly if such pay is less than \$450; or 55% of the first \$650 of three-years average pay and 30% of the excess but not less than \$270 if such pay is greater than \$450. Prior to January 1, 2002, the benefits for employees, who became members after December 31, 1974 and those hired after December 31, 1987, were reduced by 50% of the Social Security benefit. Beginning January 1, 2002, such benefits for certain classes of employees are no longer reduced by the Social Security benefit. The aforementioned benefits are prorated for employees with less than 20 years of service. All members receive a service increment of 1% of three-year average pay if hired after December 31, 1987, for each year of service in excess of 20, to a maximum of \$100 per month.

A member who meets the disability requirements, but who is not eligible to retire, is entitled to a disability benefit based upon his earnings at the date of disability without proration for service less than 20 years. For eligible employees hired on or after January 1, 1988, the following rules apply:

- a. If an employee is age 60 or older with eight years of service, he will receive his normal retirement benefit.
- b. If an employee becomes disabled before attaining age 60, but with at least eight years of service, his benefit will be calculated as though he was age 60 with his service being the greater of 1) his service at disablement or 2) the lesser of 20 years and his completed service assuming he had continued to work until age 60.
- c. The above benefit will be reduced so that the combination of this benefit and the employee's monthly workers' compensation benefit shall not exceed the employee's regular salary level at the time of disablement.

A survivor benefit is available to the surviving spouse upon the death of an active member eligible for early retirement. The benefit amount is equal to 50% of the member's pension had the member retired at the date of death. A survivor benefit equal to the excess of the member's contributions over the retirement benefits paid is provided to the beneficiary of a member whose death occurs after the retirement date. The member's contributions are returned to the beneficiary of a member whose death occurs prior to eligibility for early retirement.

Normal retirement is upon attainment of age 60 and completion of 20 years of service. A plan member is eligible for early retirement upon attainment of age 50 and completion of eight years of service. For early retirees, benefit payments may be deferred until 60 years of age or paid immediately at reduced amounts.

Prior to January 1, 2002, upon termination and prior to vesting, a member's contributions were refundable without interest to the member. Beginning January 1, 2002, contributions were refundable with 5% interest for certain classes of employees. Employee contributions to the Plan are 5% of pre-tax pay for employees hired prior to January 1, 1988 and 4% of pre-tax pay for those hired thereafter.

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In May 1995, the City offered its employees, who are covered by the Municipal Pension Fund and who had attained the age of 50 with a minimum of eight (8) years of service an Early Retirement Incentive Program (the Program). The Program became effective July 1, 1995, for those employees who elected to participate by June 30, 1995, who had become members of the Fund prior to January 1, 1988.

The retirement benefit for employees who became members of the Fund before January 1, 1975 is 55% of the first \$650 of average monthly compensation plus 30% of the amount in excess of \$650. Prior to January 1, 2002, the benefits for employees who became members after December 31, 1974 were reduced by 50% of the Social Security benefit. Beginning January 1, 2002, such benefits are no longer reduced by the Social Security benefit for certain classes of employees. Employees with 20 years of service receive an additional benefit of 1% of average monthly compensation for each complete year in excess of 20. The retirement benefit for employees with less than 20 years of service will be reduced by 5% for each year of service less than 20. In addition, for employees electing the program who have not attained the age of 60, the retirement benefit is reduced by 1/2% for each month that the payments commence prior to age 60, except for those hired before January 1, 1975 with 25 years of service. Average monthly compensation is defined as the average of salaries and wages during the highest 36 months of the final 60 months preceding retirement, excluding overtime.

The Policemen's Relief and Pension Fund

The Policemen's Relief and Pension Fund of the City of Pittsburgh (the Fund) was established by Act 99 of May 25, 1935, P.L. 233. The Fund is a single employer defined benefit plan and its purpose is to provide retirement, disability, and other benefits to its members. P.L. 233 requires the City of Pittsburgh and members of the Fund to make contributions to the Fund for the purpose of paying benefits and administrative expenses.

All employees of the Bureau of Police, including substitute uniformed employees, are eligible for membership in the Fund. At January 1, 2003, the Fund has 2,618 total members of which 1,070 are active members; 1,545 retirees, disabled, and survivors; and three terminated members not yet receiving benefits.

Retirement benefits are available at the employee's option upon completion of 20 years of service and attainment of age 50. Employees who become permanently disabled in the line of duty, and who are unable to perform the duties of their position, are eligible to receive a disability pension. Employees who become permanently disabled other than in the line of duty become eligible to receive a disability pension if they have completed ten years of service.

The regular pension benefit is equal to 50% of the highest 12 consecutive months' pay at the time of retirement. Employees hired after December 31, 1991 receive a pension benefit based on a 36-month average pay. An arbitration award dated March 30, 1992 changed the method used to calculate pension benefits for employees. Under the new method, pension benefits are determined on the basis of the last 36 months average pay instead of the last 48 months average pay for employees hired on or after January 1, 1992. Employees hired prior to January 1, 1992 receive pension benefits on the basis of the highest 12 consecutive months' pay at the time of retirement.

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Service increments of \$20 per month for each year of service between 20 and 25 years and \$25 per month for each year in excess of 25 years are included in the retirement benefit. A death benefit is available for the survivors, as defined by the plan, of any member who dies in the performance of his duties. A surviving spouse benefit, which is applicable to deaths not in the line of duty, may also be elected by plan participants.

Effective January 1, 1989, regular pensioners receiving benefits prior to January 1, 1984 and disabled pensioners receiving benefits prior to January 1, 1985 received an increase in benefits based upon retirement year.

An employee who terminates employment after 20 years of service, and before age 50, is considered fully vested in the plan. The accrued benefit is payable at age 50 and is based on average pay at the time of termination. A terminated member may elect to continue making contributions to the plan, equal to the contribution rate in effect at the time of termination. In this event, the monthly benefit payable at age 50 will be based on the rate of pay which would have been in effect had the employee continued to work until age 50. If a member terminates employment before completing 20 years of service, accumulated employee contributions are refundable.

Employee contributions to the Fund are 6% of pay plus \$1 per month. Those electing the surviving spouse benefit contribute an additional 1/2% of pay.

The Firemen's Relief and Pension Fund

The Firemen's Relief and Pension Fund of the City of Pittsburgh (the Fund) was established by Act of May 25, 1933, P.L. 1050. The Fund is a single employer defined benefit plan. Its purpose is to provide retirement, disability and other benefits to its members. P.L. 1050 requires the City of Pittsburgh and members of the Fund to make contributions to the Fund for the purpose of paying benefits and administrative expenses.

All employees of the Bureau of Fire, including the commanding officer and chief of the bureau, are eligible for membership in the Fund. At January 1, 2003, the Fund had 1,841 total members of which 867 are active members; 973 retirees, disabled, and survivors; and one terminated member not yet receiving benefits.

Retirement benefits are available at the employee's option upon completion of 20 years of service for any participant employed before January 1, 1976, or for those years employed thereafter, completion of 20 years service and attainment of age 50. Employees who become permanently disabled in the line of duty and who are unable to perform the duties of their position are eligible to receive a disability pension. Employees who become permanently disabled other than in the line of duty become eligible to receive a disability pension if they have completed ten years of service.

The regular pension benefit is equal to 50% of the wages earned during any three calendar years of service or the last 36 months average pay immediately preceding retirement. A service increment of \$20 per month in 1991 and thereafter is paid each member for each year of service in excess of 20. A death benefit is available for the survivors, as defined by the plan, of any member who dies in the performance of his duties. A surviving spouse benefit may also be elected by plan participants, which is applicable to deaths not in the line of duty. A lump-sum death benefit of \$1,200 is paid to the beneficiary of any deceased member.

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Normal vesting occurs upon attainment of age 50 and 20 years of service. Upon termination of employment a member's contributions, without accumulation of interest, are refundable.

Employee contributions to the Fund are 6% of pay plus \$1 per month. Those electing the surviving spouse benefit contribute an additional 1/2% of pay.

(B) *Funding Status and Progress*

In 1984, the Pennsylvania General Assembly passed the "Municipal Pension Plan Funding Standard and Recovery Act" (Recovery Act), which has improved the administration and funding of all municipal pension plans. The Recovery Act made changes to the actuarial reporting requirements for municipalities, set forth minimum municipal pension contributions, and established the framework for customized recovery programs for municipalities with large unfunded pension liabilities.

In accordance with the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205), the City established the Comprehensive Municipal Pension Trust Fund Board (Comprehensive Trust) in August 1987. The Board's purpose is to oversee the activities of the City's pension plans and to receive and invest the City's pension assets.

The City has three defined benefit pension plans (Municipal, Policemen's, and Firemen's), which are administered by the respective pension boards, the majority of whose members are elected by the employees. The Police and Fire Plans cover all employees of the Bureau of Police and the Bureau of Fire, respectively. Each full-time employee not covered under either the Policemen's or Firemen's Plan is required to join the Municipal Plan after serving a 90-day probationary period.

Commonwealth of Pennsylvania pension contributions are determined under Act 205. The City is eligible for the maximum remedies available under Act 205. To qualify, the City is required to fund an amount equal to normal cost and the amortization payment required to eliminate the unfunded liability over a 40-year period less any member contributions.

Act 205 contains both mandatory and optional remedies for municipalities to design a program for dealing with unfunded pension liabilities. The mandatory remedies implemented by the City were the development and adoption of an administrative improvement plan for its pension funds, the establishment of lower cost pension plans for new hires, and the aggregation of all the City's pension assets for investment purposes under the guidance of a new oversight board (the Comprehensive Municipal Pension Trust Fund Board). The Comprehensive Trust, which is comprised of seven members, four appointed by the Mayor and approved by Council and one elected from each plan, manages the investments of all pension assets and provides funds for each plan's monthly payment of benefits and administrative expenses from plan net assets. The optional remedies initially selected by the City were: 40-year amortization of the unfunded liability, level percent amortization, and a 15-year phase-in allowing the City to gradually increase its pension contributions.

In 1988, the City opted out of the 15-year phase-in optional remedy since its pension contributions were already exceeding the amount required by Act 205. In its place, the City adopted a planned schedule of pension contributions, which began in 1989 at a level of \$12 million and increases by \$500,000 every other year or the City can fund the actuarially determined minimum municipal obligation, as defined, whichever is less.

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Act 189 of 1990 amended the provisions of Chapter 3 of Act 205. Amendments require (1) annual payroll used in the calculation of financial requirements to be that of the current year (of the calculation) plus projected payroll to the end of the year and (2) an estimated state aid amount not be deducted from the total financial requirements in determining the minimum municipal obligation. The revised definition of the Minimum Municipal Obligation (MMO) is effective for MMO's developed and adopted for budgeting purposes subsequent to 1991. Additionally, the provisions for payment of the MMO were revised to require any one of three alternative methods, more fully described in Act 189, and payment of the MMO is to occur by December 31 of each year.

Annual Pension Cost

The City's annual pension cost for the past three years was as follows:

<u>Fiscal year ended</u>	<u>Municipal</u>	<u>Police</u>	<u>Fire</u>
	(Amounts in thousands)		
December 31, 2003			
Annual required contribution	\$ 4,325	12,926	6,624
Contributions made	(4,944) *	(15,355) *	(7,650) *
December 31, 2002			
Annual required contribution	2,829	10,565	5,032
Contributions made	(4,458) *	(12,137) *	(5,781) *
December 31, 2001			
Annual required contribution	3,865	10,502	5,783
Contributions made	(5,148) *	(11,370) *	(7,477) *

* Contributions made represent 100% of the Minimum Municipal Obligation as well as other postemployment benefits.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Significant assumptions underlying the actuarial computations include mortality, termination, vesting, marital status, and retirement estimates, as well as the following:

	<u>Municipal</u>	<u>Police</u>	<u>Fire</u>
Valuation date	1/1/03	1/1/03	1/1/03
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed	Level dollar closed
Remaining amortization period	36 years	36 years	36 years
Asset valuation method	Market related	Market related	Market related
Actuarial assumptions:			
Investment return	% 8.75	8.75	8.75
Projected salary increases	4.00	5.75	5.75
Cost-of-living adjustments	3.50	3.50	3.50

Required contributions have been reduced as a result of the City's 1998 general obligation bond issue, which was used to make a \$250,000,000 contribution to the plan and reduce an accumulated unfunded actuarial liability.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Three Year Trend Information

Fiscal year ending	Pension plan	Pension cost (ARC) *	Total contributions as a percentage of annual required contributions
December 31, 2001	Municipal	\$ 3,865	% 133.2
	Police	10,502	108.3
	Fire	5,783	129.3
	Total	20,150	119.1
December 31, 2002	Municipal	2,829	157.6
	Police	10,565	114.9
	Fire	5,032	114.9
	Total	18,426	121.4
December 31, 2003	Municipal	4,325	114.3
	Police	12,926	118.8
	Fire	6,624	115.5
	Total	23,875	114.7

* Contributions made represent 100% of the Minimum Municipal Obligation as well as other postemployment benefits.

At January 1, 2003, the membership of the three pension plans consisted of:

Status	Municipal	Police	Fire	Total
Retirees and beneficiaries of deceased retirees currently receiving benefits	1,590	1,545	973	4,108
Terminated employees – vested	25	3	1	29
Total	1,615	1,548	974	4,137
Active members	2,352	1,070	867	4,289
Total membership	3,967	2,618	1,841	8,426

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(8) Other Postemployment Benefits

In addition to the pension benefits disclosed in Footnote 7, resolutions of City Council, State statutes, and labor agreements have provided for certain postemployment benefits, other than pension benefits, to be provided to retirees or their beneficiaries. The City accounts for all City contributions on a pay-as-you-go basis. Such benefits are primarily funded through annual appropriations from the City's General Fund and trusts designated for those purposes. A brief summary of such benefits follows:

Municipal Pension Fund:

The 1995 Early Incentive Retirement Program (the Program) provided for a lump sum severance payment equal to 2.5 times each electing employee's gross monthly salary. The Program also provides each of the 200 employees who elected to retire under its provisions a monthly benefit of \$350 until attainment of 65 years of age.

Policeman's Pension Fund:

Police officers retiring in 1979 are eligible at age 65 to receive a maximum of \$50 per month for hospitalization insurance premiums if such retirees actually pay such premiums. Police officers retiring in 1980 and 1981 are eligible at age 60 to receive a maximum of \$50 per month for hospitalization insurance premiums if such retirees actually pay such premiums. As of December 31, 2003, the Policemen's Fund has 54 retirees receiving the \$50 per month and 4 retirees eligible to receive such benefit in the future through January 2007. Surviving spouses of deceased retirees who do not otherwise receive survivors benefits under the plan received \$350 per month. The monthly cost of surviving spouse benefits of deceased retirees not otherwise receiving benefits is approximately \$11,700.

The City of Pittsburgh also provides funds to the Comprehensive Trust for cost of living adjustments and hospitalization benefits. Combined payments received from the City by the Comprehensive Trust to fund such costs for the Firemen's and Policemen's Plans totaled \$2,406,737 for 2003.

In June of 2002, the General Assembly of the Commonwealth of Pennsylvania passed House Bill No. 1360, which amended Public Law No. 1192. As a result, Police and Firemen pension plans are required to pay increased special ad hoc postretirement adjustments to retirees based on years of service. For the year ended December 31, 2003, the additional payments to retirees that were attributable to House Bill No. 1360 were \$45,387 for the Firemen's Plan and \$60,708 for the Policemen's Plan.

Firemen's Pension Fund:

Retirees who retired between January 1, 1979 and December 31, 1986 receive up to \$70 per month as an allowance for health insurance.

Retirees who have retired since January 1, 1987 are paid the cost of health insurance at the time of retirement. Any increases in premiums subsequent to retirement are paid by the retiree.

Surviving spouses of deceased retirees who do not otherwise receive survivors' benefits under the plan receive \$350 per month.

As of December 31, 2003, the Firemen's Pension Plan incurs a monthly expense of approximately \$6,990 for healthcare benefits and \$7,350 for surviving spouse benefits of deceased retirees.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Nonunion Fund:

The City provides healthcare benefits to 1,232 retired nonunion municipal, fire, and police employees. In 1993, the City added a new retiree medical plan that provides healthcare benefits to police and fire retirees and their spouses that are over age 65. Prior to 1993, only those municipal, fire, and police retirees under age 65 received benefits. The benefit is funded by partial contributions from the retirees receiving coverage and the remainder by the City on a pay-as-you-go basis. During 2003, postretirement healthcare benefits expense paid by the City was \$9,862,990.

In addition, in 1995, the City offered postretirement healthcare benefits to all municipal employees that were age 50 or older with 20 years of service as a retirement incentive. Each retiree is to receive up to \$350 per month until age 65. There are 62 retirees in this group with a total cost to the City in 2003 of \$280,350.

The City also provides life insurance benefits to retired police and fire employees. The amount of life insurance coverage varies from \$4,000 to \$15,000 depending upon the bargaining unit and the year of retirement. This benefit is paid entirely by the City. Life insurance benefits for this group are paid on a pay-as-you-go basis from the general fund operating budget. There are 1,762 retirees in this group with a total cost during 2003 of \$200,088.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(9) Long-Term Liabilities

The maximum amount payable for future maturities of bond and interest on general long-term debt at December 31, 2003 and changes in bond principal for the year then ended are summarized below:

	<u>Principal</u>	
	<u>Outstanding at December 31, 2002</u>	<u>Bonds paid or defeased and discount amortized during 2003</u>
Council and Public Election General Obligation bonds:		
Sixteen general obligation bond issues with rates ranging from 4.0% to 7.0%. The bonds are payable from general revenues.		
2003	\$ 38,425,000	38,425,000
2004	40,755,000	—
2005	44,035,000	—
2006	47,440,000	—
2007	49,910,000	—
2008	52,360,000	—
2009 – 2013	253,080,000	—
2014 – 2018	197,980,000	—
2019 – 2023	145,000,000	—
2024 – 2026	43,625,000	—
	<hr/>	<hr/>
Subtotal	912,610,000	38,425,000
Plus: URA debt guaranteed by the City	—	—
Less: Unamortized discount on zero coupon bonds	(4,436,006)	(1,131,412)
Unamortized bond issuance costs	(6,895,298)	(640,857)
Unamortized bond discounts/premiums	1,741,079	(286,744)
Prepaid interest on debt refinancing	(6,806,708)	(283,613)
Less bonds funded by Stadium Authority	(16,750,983)	(2,282,348)
	<hr/>	<hr/>
Total	\$ 879,462,084	33,800,026
	<hr/>	<hr/>

Bonds issued or transferred during 2003	Outstanding at December 31, 2003	Interest
—	—	—
5,000	40,760,000	50,081,726
5,000	44,040,000	47,503,245
5,000	47,445,000	45,246,216
5,000	49,915,000	42,844,241
5,000	52,365,000	40,410,086
13,550,000	266,630,000	157,024,182
—	197,980,000	89,255,420
—	145,000,000	37,936,317
—	43,625,000	2,434,763
13,575,000	887,760,000	512,736,196
1,125,000	1,125,000	90,000
—	(3,304,594)	—
(296,316)	(6,550,757)	—
286,881	2,314,704	—
—	(6,523,095)	—
—	(14,468,635)	(12,440,714)
14,690,565	860,352,623	500,385,482

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Discretely Presented Component Units

Debt related to URA supported by the City (debt not recorded in URA amounts)

Future maturities of bond principal on Urban Redevelopment Authority related indebtedness supported by the City as of December 31, 2003 are as follows:

	<u>Principal</u>	
	<u>Outstanding at December 31, 2002</u>	<u>Bonds paid during 2003</u>
Urban Redevelopment Authority		
Taxable Revenue Bonds:		
One taxable revenue bond with an interest rate of 8.0%. The bond is payable from general resources from the General Fund.		
2003	\$ 1,040,000	1,040,000
2004	1,125,000	—
Total	<u>2,165,000</u>	<u>1,040,000</u>
Urban Redevelopment Authority		
Taxable Revenue Bonds:		
One Special Tax Development Bond with interest rates ranging from 8.55% to 9.07%. The bonds are payable solely from City's assignment to URA of certain Allegheny Regional Asset District revenues.		
2003	1,440,000	1,440,000
2004	1,570,000	—
2005	3,070,000	—
2006	3,345,000	—
2007	3,650,000	—
2008	3,985,000	—
2009 – 2013	26,245,000	—
2014	10,760,000	—
Total	<u>54,065,000</u>	<u>1,440,000</u>

<u>Bonds issued during 2003</u>	<u>Outstanding at December 31, 2003</u>	<u>Interest</u>
—	—	—
—	1,125,000	90,000
—	1,125,000	90,000
—	—	—
—	1,570,000	4,695,478
—	3,070,000	4,561,244
—	3,345,000	4,297,224
—	3,650,000	4,007,882
—	3,985,000	3,690,332
—	26,245,000	12,425,194
—	10,760,000	975,932
—	52,625,000	34,653,286

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

		Principal	
		Outstanding at December 31, 2002	Bonds paid during 2003
Urban Redevelopment Authority			
Revenue Bonds:			
Nine tax increment financing (TIF) bonds with interest rates ranging from 4.65% to 10.5% and one TIF note with variable interest rates. Terms of the TIF require repayments of principal and interest solely from tax increments generated in tax increment districts and related agreements.			
	2003	\$ 924,337	924,337
	2004	963,313	104,088
	2005	1,037,570	111,657
	2006	1,117,715	119,228
	2007	1,202,106	126,798
	2008	1,288,156	134,365
	2009 – 2013	7,811,416	836,485
	2014 – 2018	6,947,240	—
	2019 – 2023	682,071	—
	2024 – 2028	3,447,104	—
	Total	<u>25,421,028</u>	<u>2,356,958</u>
	Subtotal	81,651,028	4,836,958
Less:	Debt guaranteed and recorded by the City	<u>(2,165,000)</u>	<u>(1,040,000)</u>
Portion of Urban Redevelopment Authority related debt supported by the City		<u>\$ 79,486,028</u>	<u>3,796,958</u>

<u>Bonds issued during 2003</u>	<u>Outstanding at December 31, 2003</u>	<u>Interest</u>
—	—	—
23,849	883,074	6,651,478
66,043	991,956	6,365,987
80,719	1,079,206	6,033,245
110,071	1,185,379	5,667,274
119,243	1,273,034	5,265,341
915,420	7,890,351	18,716,717
1,588,681	8,535,921	4,194,627
1,188,758	1,870,829	1,086,632
—	3,447,104	845,402
<u>4,092,784</u>	<u>27,156,854</u>	<u>54,826,703</u>
4,092,784	80,906,854	89,569,989
—	(1,125,000)	(90,000)
<u>4,092,784</u>	<u>79,781,854</u>	<u>89,479,989</u>

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

URA debt recorded by URA and not supported by City

The following is a summary of changes in long-term obligations of the URA for the year ended December 31, 2003:

	Balance at December 31, 2002	Additions
	<hr/>	<hr/>
Primary Government:		
Mortgage Revenue Bond Program	\$ 162,680,000	9,115,000
Home Improvement Loan Program	18,200,000	—
Single Family Mortgage Revenue Draw Down Bonds	34,837,000	11,901,000
Bank loan	4,294,857	—
	<hr/>	<hr/>
Total Proprietary Fund Debt	220,011,857	21,016,000
	<hr/>	<hr/>
Bank loans and line of credit	3,950,718	2,345,478
HUD Section 108 loans	—	11,000,000
Compensated absences	578,146	—
	<hr/>	<hr/>
Total Debt and Other Long-Term Obligations	224,540,721	34,361,478
	<hr/>	<hr/>
Component Units:		
URA Housing Corporation:		
Bonds payable	3,780,000	—
Pittsburgh Housing Development Corporation:		
Bank construction loans	634,795	1,109,844
	<hr/>	<hr/>
Total Component Unit Debt	4,414,795	1,109,844
	<hr/>	<hr/>
Total Debt and Other Long-Term Obligations – Reporting Entity	\$ 228,955,516	35,471,322
	<hr/> <hr/>	<hr/> <hr/>

<u>Retirements</u>	<u>Balance at December 31, 2003</u>
47,770,000	124,025,000
1,370,000	16,830,000
11,738,000	35,000,000
277,804	4,017,053
<u>61,155,804</u>	<u>179,872,053</u>
—	6,296,196
—	11,000,000
9,143	569,003
<u>61,164,947</u>	<u>197,737,252</u>
110,000	3,670,000
<u>1,247,080</u>	<u>497,559</u>
<u>1,357,080</u>	<u>4,167,559</u>
<u><u>62,522,027</u></u>	<u><u>201,904,811</u></u>

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Future maturities of bond principal on Stadium Authority indebtedness at March 31, 2003 are as follows:

	Principal	
	Outstanding at March 31, 2002	Bonds paid or defeased and discount amortized during 2003
Stadium Authority Revenue Bonds and Note:		
One revenue refunding bond issue with interest rates ranging from 4.7% to 5.0%. The bonds are payable from revenue from the RAD tax:		
2003	\$ 1,780,000	1,780,000
2004	1,860,000	—
2005	1,945,000	—
2006	2,040,000	—
	7,625,000	1,780,000
Unamortized bond discount	(77,008)	22,002
	7,547,992	1,802,002
Plus: General Obligation Bonds funded by Stadium Authority. (Note due to City of Pittsburgh)	15,140,000	1,970,000
Total	\$ 22,687,992	3,772,002

Bonds and notes issued during 2003	Outstanding at March 31, 2003	Interest
—	—	—
—	1,860,000	283,752
—	1,945,000	196,333
—	2,040,000	102,000
—	5,845,000	582,085
—	(55,006)	—
—	5,789,994	582,085
—	13,170,000	—
—	18,959,994	582,085

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Future maturities of bond and note principal on Parking Authority indebtedness at September 30, 2003 are as follows:

	Principal	
	Outstanding at September 30, 2002	Bonds and notes paid during 2003
Parking Authority Revenue Bonds and Notes:		
Three revenue bond issues with interest rates ranging from 2.00% to 6.0%. These bonds are payable from revenue from Parking Authority operations.		
2003	\$ 3,720,000	3,720,000
2004	3,920,000	2,940,000
2005	4,135,000	3,105,000
2006	4,360,000	3,285,000
2007	4,605,000	3,475,000
2008	4,875,000	3,680,000
2009 – 2013	28,935,000	21,905,000
2014 – 2018	9,235,000	—
2019 – 2023	12,295,000	—
2024 – 2028	8,815,000	—
	84,895,000	42,110,000
Plus bond premium	57,934	2,585
Less unamortized discount	(973,563)	(807,649)
Less deferred amount on refinancing	—	—
Total	\$ 83,979,371	41,304,936

Bonds and notes issued during 2003	Outstanding at September 30, 2003	Interest
—	—	—
2,150,000	3,130,000	3,253,965
3,525,000	4,555,000	3,811,348
3,625,000	4,700,000	3,685,873
3,720,000	4,850,000	3,525,585
3,845,000	5,040,000	3,362,922
21,730,000	28,760,000	13,460,149
—	9,235,000	7,659,466
—	12,295,000	4,494,725
—	8,815,000	1,019,782
38,595,000	81,380,000	44,273,815
2,172,683	2,228,032	—
—	(165,914)	—
(2,168,348)	(2,168,348)	—
38,599,335	81,273,770	44,273,815

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Future maturities of bond principal on Water and Sewer Authority indebtedness at December 31, 2003 are as follows:

	<u>Principal</u>	
	<u>Outstanding at December 31, 2002</u>	<u>Bonds paid, defeased, or discount amortized during 2003</u>
Water and Sewer Authority Revenue Bonds:		
Four revenue bond issues with interest rates ranging from 4.0% to 5.3125% and two revenue refunding bonds with interest rates ranging from 4.6% to 6.5%. The bonds are payable from revenue from Water and Sewer operations.		
2003	\$ 10,704,000	10,704,000
2004	13,144,000	11,000,000
2005	13,741,000	11,515,000
2006	14,369,000	12,060,000
2007	15,029,000	12,640,000
2008	15,724,000	13,260,000
2009 – 2013	91,572,000	28,540,000
2014 – 2018	119,365,000	61,450,000
2019 – 2023	149,300,000	11,190,000
2024 – 2028	181,950,000	—
2029 – 2031	66,235,000	—
	<hr/>	<hr/>
Subtotal	691,133,000	172,359,000
Less net bond discount	(2,936,000)	—
Less unamortized discount on 1998 bonds	(119,244,000)	—
Less deferred refunding loss:		
1991 Series	(15,526,000)	—
1998 Series	(4,333,000)	—
2003 Series	—	—
	<hr/>	<hr/>
Total	\$ 549,094,000	172,359,000

Bonds issued discount and refunding loss amortized during 2003	Outstanding at December 31, 2003	Interest
—	—	
9,894,000	12,038,000	23,301,872
13,661,000	15,887,000	23,272,670
13,856,000	16,165,000	23,034,290
14,122,000	16,511,000	22,685,625
14,459,000	16,923,000	22,275,325
31,540,000	94,572,000	101,410,106
62,435,000	120,350,000	78,138,651
8,373,000	146,483,000	54,711,767
—	181,950,000	94,369,498
—	66,235,000	39,635,913
168,340,000	687,114,000	482,835,717
(628,000)	(3,564,000)	—
2,506,000	(116,738,000)	—
1,732,000	(13,794,000)	—
315,000	(4,018,000)	—
(3,162,000)	(3,162,000)	—
169,103,000	545,838,000	482,835,717

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Guaranteed Debt of Non-Component Unit

The Public Auditorium Authority is now a part of the Sports and Exhibition Authority, which is not a component unit of the City. The following debt was guaranteed by the City when the Public Auditorium Authority was a component unit of the City.

	Principal	
	Outstanding at December 31, 2002	Bonds paid or defeased during 2003
Public Auditorium Authority Revenue Bonds:		
One bond issue with interest rates ranging from 4.6% to 5.85%. The City's share of debt service on these bonds is payable from general revenues.		
2003	\$ 1,727,500	1,727,500
2004	1,797,500	—
2005	1,800,000	—
2006	1,490,000	—
2007	1,125,000	—
2008	455,000	—
2009 – 2013	2,447,500	—
2014 – 2018	2,625,000	—
Total	\$ 13,467,500	1,727,500

<u>Bonds issued during 2003</u>	<u>Outstanding at December 31, 2003</u>	<u>Interest</u>
—	—	600,612
—	1,797,500	517,928
—	1,800,000	432,427
—	1,490,000	359,418
—	1,125,000	303,167
—	455,000	1,152,423
—	2,447,500	446,932
—	2,625,000	—
<u>—</u>	<u>11,740,000</u>	<u>3,812,907</u>

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(A) Council and Public Election General Obligation Bonds

General Obligation Bonds – Series of 2003A

On June 1, 2003, the City issued \$13,575,000 of General Obligation Bonds, Series 2003A, with an average interest rate of 3.81%. The bonds consisted of serial bonds bearing various fixed rates ranging from 2.0% to 4.0% with maturities commencing on September 1, 2004 and continuing annually through September 2028.

The net proceeds of \$13,550,157 (after issuance cost of \$200,290, plus premium of \$190,856) were used to advance refund various series of bonds with an average interest rate of 5.69%.

The proceeds of \$13,550,157 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds will be considered to be defeased, and the related liability for the bonds will be removed from the City's liabilities.

Principal payments refunded were:

<u>Issue/series</u>	<u>Rate</u>	<u>Amount</u>
1993 A	%	\$ 2,310,000
1997 C	4.75	2,580,000
1998 D	4.50	2,430,000
1999 A	4.35	255,000
		<u>\$ 7,575,000</u>

The City's advanced refunding increased its total debt service payments over the next 11 years by approximately \$5 million. The transaction resulted in an economic loss (difference between the present value of the debt service on the old and the new bonds) of approximately \$300,000. This was done to reduce short-term debt payments. A summary of the City's debt by bond offering follows.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

Below is a schedule of General Obligation Bonds as of December 31, 2003.

<u>Serial bonds</u>	<u>Coupon or Ceiling Rate of Interest</u>	<u>Amount Outstanding</u>
1992A*	%	
	6.40 - 6.75	\$ 14,468,636
1992C*	6.35 - 6.35	1,371,770
1993A	5.00 - 5.50	41,505,000
1994A	5.30 - 5.30	1,690,000
1995A	4.60 - 5.25	73,050,000
1995B	4.60 - 5.13	87,130,000
1996A	4.50 - 6.00	70,170,000
1996B	6.40 - 7.00	18,905,000
1997A	4.75 - 5.00	8,500,000
1997B	4.60 - 5.50	29,735,000
1997C	5.12 - 5.25	20,120,000
1998A,B,C	5.93 - 7.00	250,865,000
1998D	4.00 - 5.25	124,750,000
1999A	4.50 - 5.15	2,040,000
2002A	4.00 - 5.50	126,580,000
2003A	4.00 - 5.50	13,575,000
Subtotal		884,455,406
Plus: URA debt guaranteed by the City		1,125,000
Less: Unamortized bond issuance costs		(6,454,731)
Unamortized bond discounts/premiums		2,218,678
Prepaid interest on debt refinancing		(6,523,095)
Less bonds funded by Stadium Authority		(14,468,635)
Total general obligation bonds payable		\$ <u>860,352,623</u>

* Zero Coupon Bonds

(B) Stadium Authority

In October 1993, the Authority issued \$15,945,000 Guaranteed Stadium Refunding Bonds, Series 1993 at an average interest rate of 4.43%. These serial bonds still outstanding bear various fixed interest rates ranging from 4.05% to 5.0% and mature annually through October 1, 2005.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Basic Financial Statements

December 31, 2003

(C) Pittsburgh Water and Sewer Authority

On September 23, 2003, the Authority issued \$167,390,000 of Water and Sewer System Revenue Refunding Bonds (2003 Bonds). The proceeds of the 2003 Bonds were used to provide funds for the current refunding of a portion of the 1993 Bond Series. This refunding resulted in an economic gain to the Authority of approximately \$4 million and a decrease to the debt service payments of approximately \$4 million. In connection with the 2003 debt refundings, the Authority recorded a deferred refunding adjustment of \$3,162,000 which is being amortized as an adjustment to interest expense over the life of the bonds using the effective interest method.

The 2003 Bonds were issued at a bond discount of \$830,000, which is being amortized as an adjustment to interest expense over the life of the bonds using the effective interest method.

The 2003 Bonds bear interest at rates ranging from 1.150% to 4.75%. Interest is payable in semiannual installments on March 1 and September 1 until maturity. Stated maturities for the 2003 Bonds are at various face amounts on September 1 of each year beginning September 1, 2004 through 2023. The 2003 Bonds, which mature after September 1, 2014, are subject to redemption prior to maturity at the option of the Authority.

(D) Debt Related to Urban Redevelopment Authority of Pittsburgh (URA) supported by the City (Debt not recorded in URA Amounts)

(1) Urban Redevelopment Authority of Pittsburgh Taxable Guaranteed Revenue Bonds – Series 1994B

In June 1994, the URA issued \$8,245,000 of Taxable Guaranteed Revenue Bonds, Series 1994B with an average interest rate of 7.48%. The remaining bonds outstanding bear a fixed rate of 8.0%.

The net bond proceeds of \$8,183,162 were used to fund the Business Reinvestment fund to provide a working capital loan to Pittsburgh Baseball, Inc. as the sole general partner of Pittsburgh Associates. The loan was given to them over a period of years. As of December 31, 2001, the full amount of the bond proceeds has been given to Pittsburgh Baseball, Inc.

The URA, the City of Pittsburgh and the trustee have entered into a Cooperation and Guaranty Agreement under which the payment of the principal and interest on the Bonds is paid and guaranteed when due by the City. Pursuant to the Agreement, the full faith, credit, and taxing power of the City is pledged for the payment of the principal and interest.

(2) URA - PDF - Special Tax Development Bonds, Taxable Series of 1995A

Effective March 1, 1995, the City entered into a Cooperation Agreement (the Agreement) which allocates a portion of the City's Allegheny Regional Asset District (RAD) revenues to pay the debt service on the Authority's Special Tax Development Bonds, Taxable Series of 1995 (Bonds), the proceeds of which were used to fund the Pittsburgh Development Fund.

The Agreement irrevocably assigns to the URA the right to receive (a) the first \$6,200,000 of the City's allocation of Allegheny Regional Asset District (RAD) revenues for each of the ten years beginning March 1, 1995 and (b) the first \$7,500,000 of the City's allocation of Regional Asset District revenues for each of the ten years beginning March 1, 2005.

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Although these bonds are not guaranteed by the full faith and credit of the City, the City has pledged its future RAD revenues and has recorded the bonds with the other component unit debt. These bonds are all insured by a municipal bond insurer.

The proceeds of the Bonds, issued February 1, 1995 in the amount of \$61,390,000, were used to create the Pittsburgh Development Fund in the URA, along with satisfying certain bond issuance expenses. The Bonds, with maturities occurring in 1996 through 2014, are limited obligations of the URA and are payable solely from the City's portion of the Allegheny Regional Asset District tax revenues and irrevocably allocated to the URA. The Pittsburgh Development Fund is an economic development fund administered by the URA for targeted and strategic developments which meet the following broad development objectives: business attraction; expansion and retention; land procurement and development, and loans to and investment in certain projects. The Pittsburgh Development Fund will also consider providing venture capital to promising upstart companies in order to encourage economic development within the City and will utilize the existing knowledge base of existing venture firms in the region.

In the prior year, this liability was considered as conduit debt by the URA and the City. Effective in 2003, the City recorded the activity of the URA PDF Trust as an additional legal entity within its discretely presented component units which it believes is a preferable treatment.

(3) Urban Redevelopment Authority of Pittsburgh (URA) Tax Increment Financing Bonds and Notes – Noncommitment Debt

Tax Increment financing bonds are used to finance economic development within the City. The bond proceeds are used to fund various construction projects within the City. Real estate value is thus increased and will provide increased future tax revenue to the City. Under a Tax Increment Financing Cooperative Agreement (the TIF Agreement) with the City, County, and the School District of Pittsburgh, each entity agrees to assign its respective rights to the incremental taxed derived from the TIF project to the URA for the term of the bonds. The difference in the amount of real estate taxes attributable to the TIF property prior to and subsequent to the development of the property constitutes the "increment" that is available to pay debt service on the bonds.

The bonds are not guaranteed by the full faith and credit of the City, and as a result of being jointly funded are not recorded in the City financial statements.

In the event that real estate tax revenues generated under the TIF Agreements are insufficient at any time to pay debt service on the bonds, the respective parties under the Minimum Payment Agreements have agreed to make payments sufficient to remedy such shortfalls. Amounts payable under the Minimum Payment Agreements correspond to debt service requirements on the respective Bonds. Pursuant to the Tenant Agreement, each tenant has agreed to guarantee the full and punctual payment when due of all obligations. During 2003, the City's share of the TIF revenue was \$3,884,322, whereas the City's share of the principal and interest paid on the TIF bonds and note were \$2,663,051.

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As of December 31, 2003, the following is a list of the TIF bonds and notes outstanding:

<u>Serial bonds</u>	<u>Coupon rate of interest</u>	<u>Total outstanding</u>	<u>City portion</u>
1995A (Penn Avenue Place)	% 5.75 - 6.00	\$ 5,240,000	1,983,342
1995B (Lazarus)	5.75 - 6.25	3,700,000	1,400,452
1996 (Alcoa)	7.31 - 8.01	6,740,000	2,546,372
1997 (Oliver Garage)	4.65 - 5.45	14,115,000	5,754,686
1999 (PNC Bank)	6.10 - 7.85	10,650,000	4,342,005
2000 (Mellon)	7.39 - 8.05	13,940,000	5,683,338
2001 (Heinz)	5.89 - 7.16	3,690,000	1,353,861
2003A (Station Square)	8.25 - 8.50	3,750,000	1,375,875
2003B (Station Square)	10.5	3,275,000	1,201,598
2003 Note (Panther Hollow)	6.50 - variable	4,130,000	1,515,297
Total		<u>\$ 69,230,000</u>	<u>27,156,826</u>

The City has forgiven approximately \$3 million in incremental real estate tax revenues to finance the debt service on these bonds during 2003.

(E) *Urban Redevelopment Authority of Pittsburgh (URA) Debt Recorded by URA and not Supported by City*

The Urban Redevelopment Authority of Pittsburgh (URA) has various bonds and loans, which are the obligation of the URA and are not guaranteed or financed by the City of Pittsburgh. The proceeds of these bonds and notes are used to provide mortgages, loans, or grants to individuals or companies within the City of Pittsburgh to be used for urban redevelopment. The bonds and loans are payable from repayment of mortgages and loans and from other revenue and grants received by the URA. Debt issued for the URA as of December 31, 2003 are as follows:

Mortgage Revenue Bonds

The Mortgage Revenue Bond Program was created to provide below market rate mortgages for the purchase and rehabilitation of residential property within the City of Pittsburgh. The bonds, including various series and term bonds, bear interest at rates from 1.90% to 7.00% and mature through 2033.

Home Improvement Loan Program Bonds

The URA issued various series of bonds over the life of the program to finance the rehabilitation of residential housing for persons and families of low to middle income throughout the City of Pittsburgh and without regard to income in designated redevelopment areas within the City of Pittsburgh. Serial bonds of \$6,730,000 are currently outstanding. They bear interest at rates varying from 4.20% to 7.20% and mature through 2010. There are also term bonds outstanding of \$10,100,000 with stated interest rates from 5.15% to 6.375% and maturity dates ranging from 2004 through 2021.

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Single Family Mortgage Revenue Draw Down Bonds

The purpose of the program is to preserve tax-exempt private activity volume cap by warehousing note proceeds resulting from prepayment redemptions, maturing principal or other special redemptions of the URA until the issuance of long-term bonds. Merrill Lynch has committed to purchase over a three-year period beginning on June 1, 2001 and ending June 1, 2004 up to \$35,000,000 of tax-exempt short-term notes at a variable interest rate of 85% of LIBOR. The note proceeds are invested in a guaranteed investment agreement at a rate higher than the note rate. Upon the issuance of long-term bonds, the notes are refunded. No principal payments are due until 2031.

Bank Loans

The URA received a loan to finance renovations to the Lexington Technology Park buildings. Monthly interest payments are currently being made at an effective rate between 5.62% and 8.30%. Lease rental payments are pledged as collateral for this loan. Final maturity is April 1, 2009.

In 2002, the URA received a loan to finance construction costs incurred to build a garage located at the South Side Works. Interest payments are at an effective rate of 7%, which is the 3-year FHLB rate plus 2.75%. Rental payments and a mortgage are pledged as collateral for this loan. At December 31, 2003, \$3.8 million is outstanding. Final maturity is February 28, 2019.

In 2003, the URA received a second loan to finance construction costs incurred to build garage #2 at the South Side Works. Interest payments are at an effective rate of 7.28%, which is the 5-year FHLB rate plus 2.75%. A mortgage is pledged as collateral for this loan. At December 31, 2003, \$2,236,196 is outstanding. Final maturity is April 1, 2018.

Revolving Line of Credit

During 2000, the URA entered into a \$4 million line of credit agreement with Fannie Mae for the acquisition, construction, development, and rehabilitation of for-sale single-family housing and multi-family rental housing within the City of Pittsburgh. The line carries a term of five years, and each advance will bear interest ranging from LIBOR plus 92 basis points to LIBOR plus 141 basis points, depending on whether a first mortgage is available as a security. As a condition of the line, the URA has provided Fannie Mae with a bank letter of credit backed by \$1 million of the URA's General Fund. There were no draws or payments associated with this loan during 2002. In addition, no balance was outstanding as of December 31, 2003.

During 2002, the URA entered into a \$5 million line of credit agreement with Fannie Mae to finance site improvements related to the Summerset at Frick Park project. This line carries a term of 45 months, and each advance will bear interest of LIBOR plus 141 basis points. The loan is secured by a non-recourse promissory note and a \$1 million pledge from the general fund. There is a balance outstanding of \$260,000 as of December 31, 2003, which was drawn during 2002.

HUD Section 108 Loans

During 2003, the URA received two HUD Section 108 loans to provide funding for the construction of garages at South Side Works. The first loan, in the amount of \$4.5 million is for an 850-space parking garage. The loan bears interest at 4%, with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2018. The loan is secured by 60% of the

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URA's interest in the tax increment from certain properties located in the South Side. No principal payments are due in 2004.

The second loan, in the amount of \$6.5 million is for the construction of a 367-space parking garage and site improvements in the South Side. The loan bears interest at 4%, with semiannual principal and interest payments due February 1 and August 1. The loan matures on August 1, 2018. The loan is secured by 60% of the URA's interest in the tax increment from certain properties located in the South Side as well as future Community Development Block Grants. \$275,000 is due in 2004.

Annual debt service requirements of the URA are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years:			
2004	\$ 6,167,059	9,251,775	15,418,834
2005	6,243,314	8,966,646	15,209,960
2006	6,081,110	8,671,924	14,753,034
2007	6,080,365	8,375,625	14,455,990
2008	6,637,412	8,071,881	14,709,293
2009-2013	33,055,100	34,655,124	67,710,224
2014-2018	36,498,889	25,155,970	61,654,859
2019-2023	25,885,000	16,216,247	42,101,247
2024-2028	24,155,000	9,037,312	33,192,312
2029-2033	46,365,000	2,290,594	48,655,594
	<u>\$ 197,168,249</u>	<u>130,693,098</u>	<u>327,861,347</u>

URA Component Unit Debt consists of the following:

URA Housing Corporation – Bonds Payable

The URA Housing Corporation issued Multi-Family Refunding Bonds Series 1998 to refund the outstanding Series 1982 Bonds. The bonds bear interest at 5.40%, per annum and mature on July 1, 2022. Interest is payable semi-annually on January 1 and July 1 each year. The outstanding balance at December 31, 2003 was \$3,670,000. A deferred refunding loss of \$249,268 is offset against the liability.

PHDC-URA Loans

PHDC had outstanding construction loans payable to the URA of \$2,174,623. The loans are non-interest bearing. The loans mature through 2005, and are secured by a third lien position on real property and improvement.

PHDC-Bank Loans

The PHDC had outstanding construction loans payable to banks of \$497,559. Interest accrues on the loans at rates between 0% and 8.5%. Loans are due on demand or through 2005.

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Future Maturities

Annual payments of principal required of the component units are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years:			
2004	\$ 2,744,726	196,560	2,941,286
2005	167,456	190,215	357,671
2006	130,000	183,465	313,465
2007	135,000	176,310	311,310
2008	150,000	168,885	318,885
2009-2013	860,000	714,825	1,574,825
2014-2018	1,145,000	449,280	1,594,280
2019-2023	1,010,000	112,050	1,122,050
	<u>\$ 6,342,182</u>	<u>2,191,590</u>	<u>8,533,772</u>

All interest expense on loans of the primary government and its component units is reported as program expense as the borrowings are essential to the programs and the financial statements would be misleading to exclude these charges as direct expenses.

(F) Other Long-Term Obligations

The following is a summary of transactions affecting all other long-term obligations of the City during 2003:

	<u>Accrued workers' compensation</u>	<u>Accrued compensated absences</u>	<u>Accrued claims and judgments</u>
Balance, January 1, 2003	\$ 80,816,573	33,000,043	3,410,000
Additions	19,973,215	16,849,134	1,132,505
Reductions/payments	<u>(21,429,362)</u>	<u>(17,814,243)</u>	<u>(1,475,005)</u>
Balance, December 31, 2003	79,360,426	32,034,934	3,067,500
Less amounts accrued within short-term	<u>(19,026,283)</u>	<u>(16,926,064)</u>	<u>(2,067,500)</u>
Long-term portion, December 31, 2003	<u>\$ 60,334,143</u>	<u>15,108,870</u>	<u>1,000,000</u>

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(10) Due From/To Other Governments

(A) Due From Other Governments

The City receives funds from various government agencies as reimbursements for their share of City projects and as grants for City programs. The following amounts, as described below, are due from other governments at December 31, 2003:

General fund:	
Pennsylvania Department of Transportation	\$ 1,423,452
Commonwealth of Pennsylvania	422,459
Regional Asset District (RAD)	<u>2,888,246</u>
	<u>4,734,157</u>
Special revenue CDBG:	
Housing and Urban Development	3,570,349
Other governmental funds:	
Job Training Partnership Program	1,179,294
Allegheny County – Public Safety	392,910
Allegheny County - Parks	170,092
PA Department of Transportation - LFT	<u>1,104,372</u>
	<u>2,846,668</u>
Capital projects:	
Commonwealth of Pennsylvania – Highway Fund	200,559
Federal Government – Highway Funds	<u>795,975</u>
	<u>996,534</u>
	<u>12,147,708</u>
Total due from other governments – governmental funds	\$ <u><u>12,147,708</u></u>

(B) Due To Other Governments

Funds collected by the City on behalf of other governments. The following amounts, as described below, are due to other governments at December 31, 2003:

General fund:	
Pittsburgh Board of Education	\$ 1,606,362
Commonwealth of Pennsylvania	110,091
Sports and Exhibition Authority	<u>92,535</u>
	1,808,988
Capital projects:	
Commonwealth of Pennsylvania	800,000
Other governmental funds:	
Federal government	<u>1,322,802</u>
Total due to other governments	\$ <u><u>3,931,790</u></u>

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(11) Interfund Receivable and Payable Balances

	DUE FROM (FUND)				
	General	Other governmental	Capital projects	Community development	Total
DUE TO (FUND)					
General fund	\$ —	1,384,374	2,000,000	479,848	3,864,222
Other governmental	1,766	—	841,966	279,050	1,122,782
Capital projects	—	—	—	1,364,874	1,364,874
TOTAL	\$ 1,766	1,384,374	2,841,966	2,123,772	6,351,878

All interfund balances represent timing differences resulting from the difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments are made.

The due from other funds amount for the general fund on the governmental funds balance sheet also includes \$269,083 due to the general fund from the agency fund. All amounts above, except fiduciary (Pension and Agency funds), eliminate at the government-wide financial statement level.

Discrete component unit interfund receivable and payable balances:

	Receivables	Payables
Agency funds	\$ 949,274	—
Pittsburgh Water and Sewer Authority	—	949,274
Total balances between governmental funds and component units	\$ 949,274	949,274

(12) Operating Transfers

Transfers between primary government funds:

	TRANSFER FROM (FUND)			
	General	Other governmental	Community projects	Total
TRANSFER TO (FUND)				
General fund	\$ —	755,000	—	755,000
Debt service	70,048,725	—	15,409	70,064,134
Other governmental	778,000	163,545	3,474,981	4,416,526
TOTAL	\$ 70,826,725	918,545	3,490,390	75,235,660

Transfers are used (1) to move revenues from the funds that are required by statute or budget to collect them to the funds that are required by statute or budget to spend them, (2) to move receipts restricted for debt service from the funds collecting them to the Debt Service Fund as debt service payments become due, and (3) to move unrestricted revenues collected in the General Fund, which finance various programs accounted for in other funds in accordance with budgetary authorizations.

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(13) Fund Deficits

(A) Stadium Authority Deficit

The deficit of the Stadium Authority will be subsidized through future revenues from the Regional Asset District. The Stadium Authority will receive decreasing amounts of support through the year 2010 sufficient enough to pay off all bond obligations that they currently owe.

(B) Pittsburgh Water and Sewer Authority

Net assets have been reduced by \$17,126,000 in 2003, which has resulted in a net asset deficit of \$34,132,000 as of December 31, 2003. The Authority has extended its contract with a nationally known service company to improve operations, has placed delinquent accounts with a collection agency to improve collections, and has approved rate increases in an effort to cover increased debt service and to reduce the deficit position. Water usage rates increased by 19% effective February 1, 2004.

(14) Related Party Transactions

- (A) Under the terms of agreements dated July 1, 1965, December 1, 1985, and April 1, 1986, the City of Pittsburgh agreed to make annual grants to the Stadium Authority for the excess of the aggregate cost of operation and maintenance of the stadium complex and debt service on the stadium bonds over the total funds available to the Stadium Authority for those purposes. The Stadium Authority is required to repay these grants to the extent that its revenues are not required for operation and maintenance of the stadium complex and debt service on the stadium bonds. The Stadium Authority has this reflected as a long-term note due to the City of Pittsburgh. The City, however, does not have a corresponding receivable recorded due to the unlikelihood of collection.

On June 17, 1992, the City and the Stadium Authority entered into an agreement to restructure the Stadium Authority's Series 1985 Bonds. Under the agreement, the City issued bonds, and certain of these bond proceeds were escrowed for repayment of the Authority's Series 1985 Bonds. Funds provided by the City were used to fully redeem the Series 1985 Bonds during the fiscal year ended March 31, 1994. The funds provided are reflected by the Stadium Authority as long-term payable to the City of Pittsburgh for a total of \$11,755,000. The City, however, does not have a corresponding receivable recorded due to the unlikelihood of collection since the stadium assets were significantly eliminated when the stadium was demolished.

- (B) The URA, acting as the City's agent under a 1981 cooperation agreement, made two loans from prior years' Urban Redevelopment Action Grant (UDAG) funds to a development company to assist in the construction of the Parkway Center Mall in the City's West End, which was completed in November 1982. Neither of these loans are reflected as a receivable in the City's financial statements due to the contingent nature of repayments and unspecified terms when the loans were made.

The first loan of \$2,000,000 was made under an agreement dated October 30, 1981, as amended April 22, 1982 and April 2, 1984, the purpose of which was to assist in the construction costs of the mall; repayments are contingent upon positive cash flows and other factors. The loan, which has a 27-year term with varying interest rates, is to be repaid to the City by the URA at the City's discretion. The Parkway Center Mall asked for and received a deferral of their loan payment for

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2003 and 2004. The balance of the receivable from the URA, should the city continue to exercise its option, at December 31, 2003 was \$1,106,650.

The second loan of \$6,819,972 was made under an agreement dated April 2, 1984 for the construction of highway ramps to connect the mall with I-279. This loan agreement was amended on July 13, 1992. Repayment of the loan was to commence on June 1, 1992. The term of the loan is 30 years with varying fixed interest rates. They also received a deferral in 2003 and 2004 for this loan. The remaining balance including accrued interest is \$5,373,786 at December 31, 2003.

- (C) In February 2000, the Public Parking Authority and the City of Pittsburgh amended the cooperation agreement between them dated February 5, 1995. Among other things, the amended cooperation agreement increased from \$1.4 million to \$1.9 million the Authority's annual payment in lieu of real estate taxes to the City. Under the terms of the agreement, however, the payment to the City is made only upon the Authority successfully meeting its annual debt service requirements, determined each year on December 15. This amendment effectively subordinates the Authority's annual payment in lieu of taxes, providing additional security for Authority bondholders. The Authority has reflected within their financial statements as accounts payable and other accrued expenses amounts owed to the City for miscellaneous items totaling \$216,771. The City, however, does not have a corresponding receivable recorded due to the unlikelihood of collection.

(15) Construction and Lease Commitments

As of December 31, 2003, the City had the following commitments with respect to unfinished capital projects:

<u>Capital project</u>	<u>Remaining construction commitment</u>	<u>Expected date of completion</u>
Sixth floor City-County Building rehabilitation	\$ 187,655	January 2004
Edgebrook Avenue Bridge	305,740	May 2004
Highland Park Fountain	287,977	June 2004
P.J. McArdle Roadway	155,123	May 2004
Noblestown Road Retaining Wall	155,197	April 2004
West End Overlook	93,980	January 2004
Total	<u>\$ 1,185,672</u>	

Commencing on July 3, 2002, the City entered into a twenty year, noncancelable (unless there is a default of the terms by either party) lease for office space to be used by the Department of Public Safety, Police Bureau. The lease includes additional renewal options to extend the lease for four consecutive terms of five years each. The terms of the lease do not start until the Police Bureau takes possession of the property. The first lease payment was made for March 2004.

There is an option to purchase, but it is unknown at this time whether the City will exercise this option. Since the lease is not effective until 2004, the City will evaluate whether this will be treated as an operating or capital lease during 2004.

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The minimum future rental payments required by the lease are as follows:

	Year ended December 31
2004	\$ 1,050,000
2005	1,260,000
2006	1,260,000
2007	1,260,000
2008	1,260,000
Thereafter	21,435,400

The City also has operating leases for copier rental and various other small office machines. The rental cost of the copier machines was \$221,226 for the year ending December 31, 2003.

(16) Regional Asset District Revenues

In December 1993, the Commonwealth of Pennsylvania legislature approved Act 77 of 1993 authorizing the creation of the Allegheny Regional Asset District (Regional Asset District) by Allegheny County. The Regional Asset District is a special purpose district whose primary purpose is to provide support and financing for regional community assets that were historically funded by the City, County, or local municipalities. The City does not include the Regional Asset District within its reporting entity since the City is not financially accountable for the Regional Asset District's operations. These community assets include regional parks of the City and County, municipal libraries, the Pittsburgh Zoo, the Pittsburgh Aviary, Phipps Conservatory, the old Three Rivers Stadium debt, PNC Park, Heinz Field, and community cultural facilities.

Regional Asset District revenue allocated to the City totaled approximately \$20.0 million in 2003. The City allocated approximately \$5.9 million to park operations, \$1.6 million to debt service, and \$4 million in grants to the school board.

The City has irrevocably allocated/pledged a portion of its future Regional Asset District revenues to the Urban Redevelopment Authority of Pittsburgh for the establishment of the Pittsburgh Housing Development Corporation. As further discussed in Footnote 9, the Pittsburgh Housing Development Corporation is an economic development fund that will be used for making loans to and investments in certain projects located within the City. The amounts are pledged for the next 19 years with \$6,200,000 annually allocated for the first nine years and \$7,500,000 annually thereafter.

(17) Contingencies

The City has been named as a defendant in a number of lawsuits arising in the ordinary course of its operations against which the City is not insured. In the opinion of the City Solicitor, adequate accrual has been made in the financial statements for such lawsuits.

There are currently a number of real estate appeals in process for which the outcome and possible further reduction in the real estate tax levy cannot be determined at this time. The City has accrued an estimate for tax refunds within accounts payable on the statements of net assets and governmental funds (general) balance sheet.

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The City receives federal and state grants under a number of programs. The expenditures of the City under such programs are subject to audit and possible disallowance. Historically, such audits have not resulted in significant disallowances of program costs, and City management believes that audits of existing programs will not result in significant liability to the City. Consequently, no provision for losses has been recorded in the accompanying financial statements for the legal action discussed in this and the preceding paragraphs.

(18) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The risk of loss to which the City is exposed for the above mentioned items is handled through various insurance coverages. As of December 31, 2003, there were no settlements exceeding coverage for the past three years. The City also covers certain claim settlements and judgments from its General and Capital Projects Fund resources due to the prohibitive cost of carrying certain commercial insurance. The City currently reports all risk management activities out of its General Fund. Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Provisions are recorded within current liabilities for amounts payable within one year. Amounts not payable within one year are reported within long-term liabilities.

Changes in the accrued claims and judgments liability during the years ended December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accrued claims and judgments, January 1	\$ 3,410,000	3,270,000
Current year claims	1,132,505	1,374,831
Claim payments	<u>(1,475,005)</u>	<u>(1,234,831)</u>
Accrued claims and judgments, December 31	<u>\$ 3,067,500</u>	<u>3,410,000</u>

These accruals are subject to potential losses in excess of the amount recorded at year end; it is unlikely that the amount for such potential losses would be material.

Also, the City is fully self-insured for workers' compensation benefits. These amounts were calculated by actuaries, based on industry standards and utilizing discount rates ranging between 1.08% and 5.43%. A self-insurance reserve fund in the amount of \$304,653 (classified as restricted within general fund) is maintained, due to a legal requirement under self-insurance regulations of the State of Pennsylvania, in the general fund.

Changes in the accrued workers' compensation liability during the years ended December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accrued workers' compensation, January 1	\$ 80,816,573	91,592,415
Current year claims and development of prior year accruals	19,973,215	9,811,410
Claim payments	<u>(21,429,362)</u>	<u>(20,587,252)</u>
Accrued workers' compensation, December 31	<u>\$ 79,360,426</u>	<u>80,816,573</u>

CITY OF PITTSBURGH, PENNSYLVANIA

Required Supplementary Information

Pension Trust Funds

Schedule of Funding Progress

(In Thousands)

Actuarial valuation date (January 1)	Pension plan	Actuarial value of plan assets	Actuarial accrued liability	Unfunded actuarial liability	Actuarial value of assets as a percentage of annual accrued liability	Annual covered payroll	Unfunded actuarial liability as a percentage of annual covered payroll
2001	Municipal	\$ 124,935	\$ 185,656	\$ 48,012	67.3%	\$ 64,621	74.3%
	Police	150,833	305,282	152,196	49.4%	51,345	296.4%
	Fire	<u>147,291</u>	<u>222,041</u>	<u>70,088</u>	<u>66.3%</u>	<u>50,326</u>	<u>139.3%</u>
	Total	<u>\$ 423,059</u>	<u>\$ 712,979</u>	<u>\$ 270,296</u>	<u>59.3%</u>	<u>\$ 166,292</u>	<u>162.5%</u>
2002	Municipal	\$ 111,528	\$ 205,300	\$ 93,772	54.3%	\$ 69,594	134.7%
	Police	133,280	314,033	180,753	42.4%	54,815	329.8%
	Fire	<u>136,442</u>	<u>233,373</u>	<u>96,931</u>	<u>58.5%</u>	<u>52,054</u>	<u>186.2%</u>
	Total	<u>\$ 381,250</u>	<u>\$ 752,706</u>	<u>\$ 371,456</u>	<u>50.7%</u>	<u>\$ 176,463</u>	<u>210.5%</u>
2003	Municipal	\$ 91,604	\$ 212,206	\$ 120,602	43.2%	\$ 69,034	174.7%
	Police	106,340	323,466	217,126	32.9%	54,308	399.8%
	Fire	<u>114,527</u>	<u>230,092</u>	<u>115,565</u>	<u>49.8%</u>	<u>54,006</u>	<u>214.0%</u>
	Total	<u>\$ 312,471</u>	<u>\$ 765,764</u>	<u>\$ 453,293</u>	<u>40.8%</u>	<u>\$ 177,348</u>	<u>255.6%</u>

**SINGLE AUDIT
SECTION**

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA #</u>	<u>Pass- through grantor's #</u>	<u>Cash disbursements</u>
U.S. Department of Aging:			
Passed through the Commonwealth of Pennsylvania and Allegheny County:			
Disease Prevention & Health Promotion Services	93.043	—	\$ 19,000
Center Clustered Services – I&R & Center Services 7-1-02 to 6-30-03 award – \$274,701	93.044	—	376,757
Center Clustered Services – Congregate Meals 7-1-02 to 6-30-03 award – \$102,056			
Center Clustered Services – Congregate Meals 7-1-02 to 6-30-03 award – \$143,633			
7-1-02 to 6-30-03 award – \$63,053	93.045	—	206,666
Total U.S. Department of Aging			<u>602,423</u>
U.S. Department of Agriculture:			
Passed through the Commonwealth of Pennsylvania Department of Education:			
Summer Food Service Program for Children 2003 grant award – \$780,860	10.559	—	770,408
Passed through the State Department of Labor:			
State Administrative Matching Grants for Food Stamp Program – SPOC			
7-1-02 to 6-30-03 award – \$202,335	10.561	—	93,117
7-1-03 to 6-30-04 award – \$97,382			
Total Department of Agriculture			<u>863,525</u>
Equal Employment Opportunity Commission:			
Employment Discrimination – State & Local Fair Employment Practices			
2003 grant award – \$76,100	30.002	—	86,482
Total Equal Opportunity Commission Direct Programs			<u>86,482</u>
U.S. Department of Health and Human Services:			
Passed through the Commonwealth of Pennsylvania Department of Labor:			
Job Opportunities & Basic Skills Training – SPOC Program			
7-1-00 to 6-30-01 grant award – \$2,522,168			
7-1-01 to 6-30-02 grant award – \$3,942,851			
9-01-01 to 9-30-02 grant award – \$444,529	93.558	—	3,074,935
Passed through the Commonwealth of Pennsylvania Department of Economic Development:			
Enterprise Community Grant Program			
1996 grant award – \$2,974,368	93.585	#2239506	116,283
Total U.S. Department of Health and Human Services			<u>3,191,218</u>
U.S. Department of Housing and Urban Development:			
Community Development Block Grant – Entitlement			
B-01-MC-42-0103 – \$21,935,000			
B-01-MC-42-0103 – \$21,875,000	14.218	—	18,941,002
B-03-MC-42-0103 – \$20,645,000			
Home Investment Partnership Program			
M03-MC-42-0501 – \$4,009,892	14.239	—	7,605,724

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA #</u>	<u>Pass- through grantor's #</u>	<u>Cash disbursements</u>
U.S. Department of Housing and Urban Development, continued:			
Housing Opportunities for Persons with AIDS (HOPWA) PAH03-F0002 – \$607,000	14.241	—	\$ 284,317
Fair Housing Practices 2003 award – \$187,600	14.401	—	38,824
Emergency Shelter Grant Program S-01-MC-42-0002 – \$746,000 S-03-MC-42-0002 – \$749,000	14.231	—	565,794
Passed through Pennsylvania Department of Economic Development: State Emergency Shelter Grant Program 2001 grant award – \$200,000	14.231	#G225014	92,375
Passed through the Housing Authority of the City of Pittsburgh Housing Block Grant	14.872	—	<u>34,329</u>
Total U.S. Department of Housing and Urban Development			<u>27,562,365</u>
U.S. Department of Justice:			
Freedom Corner – Weed & Seed 01 WS QS 0064 – \$435,000	16.580	—	392,399
Passed through the Commonwealth of Pennsylvania Commission on Crime and Delinquency: Local Law Enforcement Block Grant 2002-HS-WX-0027 – \$124,998 2003-DD-BX-0273 – \$198,700 Bulletproof Vest Partnership Grant	16.579 16.607	— —	189,863 <u>15,512</u>
Total U.S. Department of Justice			<u>597,774</u>
Workforce Investment Act:			
Welfare to Work	17.253	—	504,145
Faith/Community Based Initiative	17.257	—	46,724
Workforce Investment Act – Adult	17.258	—	818,068
Workforce Investment Act – Youth Activities	17.259	—	1,134,775
Workforce Investment Act – Dislocated Workers	17.260	—	<u>1,071,104</u>
Total U.S. Department of Labor			<u>3,574,816</u>

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA #</u>	<u>Pass- through grantor's #</u>	<u>Cash disbursements</u>
U.S. Department of Transportation: Passed through the Commonwealth of Pennsylvania			
Department of Transportation:			
Highway Planning and Construction	20.205	—	\$ 4,214,576
Transportation Security Administration			
Port Security Grants			
2003 grant award – \$175,000	97.056	—	<u>173,067</u>
Total U.S. Department of Transportation			<u>4,387,643</u>
Total federal assistance			\$ <u><u>40,866,246</u></u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the City of Pittsburgh, Pennsylvania received by funds which comprise the primary government. The City's reporting entity is defined in note 1 to the City's basic financial statements. All federal awards received directly from federal agencies by the primary government as well as federal awards passed through other government agencies to the primary government is included on the schedule. This schedule does not include expenditures of the following discretely presented component units: the Urban Redevelopment Authority of Pittsburgh; the Public Parking Authority of Pittsburgh; the Pittsburgh Water and Sewer Authority, and the Stadium Authority of Pittsburgh. We did not include the aforementioned entities because they engaged other auditors to perform an audit, if applicable, in accordance with OMB Circular A-133.

(2) Basis of Accounting

The accompanying SEFA is presented using the cash basis of accounting.

(3) Relationship to General Purpose Financial Statements

The receipts and disbursements reported in the accompanying SEFA differ from the respective revenues and expenditures reported in the general purpose financial statements due to the use of the cash basis of accounting for the schedule of expenditures of federal awards.

(4) Contractual Agreement

The City is a contractual recipient of federal awards under agreements with the U.S. Department of Housing and Urban Development (HUD). The City has authorized HUD to transmit funds under three of these agreements directly to the Urban Redevelopment Authority of Pittsburgh (the Authority), which is the representative agency with program oversight responsibility. Therefore, the related federal awards are reported by the Authority to its cognizant agency in the Authority's audit report under the Single Audit Act of 1984, in addition to being reported as a program in the City's SEFA. The information regarding these direct federal payments for the year ended December 31, 2003:

<u>Program title</u>	<u>Federal CFDA #</u>	<u>Amount</u>
Home Investment Partnership Program	14.239	\$ 7,605,724

CITY OF PITTSBURGH, PENNSYLVANIA

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

(5) **Subrecipients**

Program title	Federal CFDA #	Provided to subrecipients
Community Development Block Grant – Entitlement	14.218	\$ 18,941,002
Emergency Shelter Grant Program	14.231	658,169
Housing Opportunities for Persons With AIDS (HOPWA)	14.241	284,317
State Administrative Matching Grants for Food Stamp Program – SPOC	10.561	93,117
Job Opportunities and Basic Skills Training – SPOC Program	93.558	3,074,935
Freedom Corner – Weed & Seed	16.580	392,399
Enterprise Community Grant Program	93.585	116,283
Housing Authority, City of Pittsburgh C#4258	14.872	34,329
Home Investment Partnership Program	14.239	7,605,724



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**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Basic
Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Members of Council of
the City of Pittsburgh, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, the budgetary comparison statements, and the aggregate remaining fund information of the City of Pittsburgh, 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 accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Urban Redevelopment Authority of Pittsburgh (the URA), the Public Parking Authority of Pittsburgh (the Parking Authority), the Pittsburgh Water and Sewer Authority (the PWSA), and the Stadium Authority of the City of Pittsburgh (the Stadium Authority), which represent 99% and 97%, respectively of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the City of Pittsburgh Pension Trust Fund (the Pension Fund), which represents 94% and 81%, respectively, of the assets and revenues of the aggregate remaining fund information. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the URA, the Parking Authority, the PWSA, the Stadium Authority, and the Pension Fund, is based solely upon the reports of the other auditors. Additionally, the City changed its method of presentation of the URA-PDF Trust. 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.

SA-6



Compliance

As part of obtaining reasonable assurance about whether the City's basic 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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving 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 internal control over financial reporting that, in our judgment, could adversely affect the City's 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 items 2003-01, 2003-02, and 2003-03.

A material weakness is a condition in which the design or operation of one or more 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 internal control over financial reporting would not necessarily disclose all matters in 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 none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Members of City Council and management of the City of Pittsburgh, Pennsylvania, 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.

KPMG LLP

Pittsburgh, Pennsylvania
July 16, 2004



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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Honorable Members of Council of the
City of Pittsburgh, Pennsylvania:

Compliance

We have audited the compliance of the City of Pittsburgh, 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 its major federal programs for the year ended December 31, 2003. The City'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 its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Urban Redevelopment Authority of Pittsburgh, the Public Parking Authority of Pittsburgh, the Pittsburgh Water and Sewer Authority, and the Stadium Authority of the City of Pittsburgh. Our audit, described below, did not include the operations of the aforementioned entities because they engaged other auditors, if applicable, to perform an audit in accordance with OMB Circular A-133.

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 tests basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

SA-8



In our opinion, the City 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.

However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are identified below and described in the accompanying schedule of findings and questioned costs as follows:

CFDA No.	Federal Programs	Finding Number	Compliance Requirement
12.239	Home Investment Partnership Program	2003-04	Subrecipient Monitoring

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City'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 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 relative 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 Members of City Council and management of the City of Pittsburgh, Pennsylvania, 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.

KPMG LLP

Pittsburgh, Pennsylvania
September 3, 2004

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

(1) Summary of Auditors' Results

(a) *The type of report issued on the financial statements:*

Unqualified

(b) *Reportable conditions in internal control were disclosed by the audit of the financial statements:*

Yes, see findings 2003-01, 2003-02, and 2003-03

Material weaknesses:

No

(c) *Noncompliance which is material to the financial statements:*

No

(d) *Reportable conditions in internal control over major programs:*

No

Material weaknesses:

No

(e) *The type of report issued on compliance for major programs:*

Unqualified opinion

(f) *Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:*

Yes – 2003-04

(g) *Major programs:*

CFDA 97.056 – Port Security Grant

CFDA 14.218 Community Development Block Grant

CFDA 14.239 Home Investment Partnership Program

(h) *Dollar threshold used to distinguish Type A and B programs:*

\$1,225,987

(i) *Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:*

Yes

(2) Financial Statement Finding Section

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

2003-001 – Internal Control Over Financial Reporting

City Financial Statement Closing Process

During the Financial Statement Audit Process, the following observations were noted related to the City's Financial Statement Closing Process:

- The City's Home Rule Charter requires the Controller's office to submit verified financial statements to City Council by May 1, and the Government Finance Officers Association (GFOA) usually requires audited financial statements by June 30. However, the process to prepare comprehensive financial statements at the City of Pittsburgh at year-end generally requires four to six months to complete. In addition, this process has taken more than seven months to complete the past two years.
- Complete financial statement presentation is done once a year and relies heavily on the external audit engagement team to facilitate the process.
- The City Controller's office does not have a timely monthly verification process to review the interfund accounts, fund balances, and revenue and expenditure accruals.
- The City Controller's office does not make effective use of estimates to record unreceived invoices and unrecorded revenue, allowing for a timely close.
- Information received from other City departments is not adequately reviewed for completeness and accuracy before year end closing entries are recorded.

Recommendations

The City should institute a quarterly financial statement closing process that will provide more accurate interim financial information and make the process more routine.

The City should assign responsibility for managing the financial statement closing process to one individual who will coordinate with all City offices to insure an accurate and timely close. Based on the City Home Rule Charter, the Controller's office should be the location for the responsibility for quarterly and year-end financial reporting with appropriate coordination with the Finance Department and other offices.

The financial statement closing process should be documented with an enforced formal timeline and responsibility assignment to insure that all required information is gathered and analyzed.

Personnel assignments in the Controller's office should be made so all funds have a qualified accountant reviewing monthly reports and preparing necessary journal entries to assist in the quarterly financial statement process.

Accounts subject to accounting estimates should be identified and historical information developed to allow for timely (quarterly) estimations. These include: real estate taxes receivable, allowance for uncollectible accounts, tax-payer assessed taxes receivable, other receivables, accrued workers' compensation, compensated absences, and claims and judgments.

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

2003-02 – Capital Asset and Capital Project Management Process

Observations

- The City does not have a consistent or adequate process to manage the accounting of construction in progress capital projects accurately or on a timely basis. The City does not capture when capital assets are substantially complete, validate the starting point for depreciation, review the amount capitalized to insure they reconcile to underlying records, or verify ownership percentages for the assets.
- The City does not have a formal process for managing and tracking the disposal of the City's Capital Assets.
- The City does not have a formal process of managing dedicated Capital Assets or Capital Assets to be dedicated. There are component units that have a significant amount of capital assets that have been ready for dedication to the City, however, for various reasons, the assets have not yet been dedicated and the accounting has not always been synchronized between entities.

Recommendations

The Controller's department should enhance its process of managing the accounting for construction in progress capital projects. Communication between the Controller's department and the Engineering and Construction (E & C) department should be more regular and more detailed. Each quarter, the Controller's department should discuss each capital project in construction in progress to determine if the asset is substantially complete and has been put into service for its intended use. Also, the director of the E & C department or the project manager should confirm the cost amount of each project (including Design/Engineer, Demolition, Construction Management, Bonuses, etc.) and the City's ownership percentage. These improvements will yield more accurate financial information being recorded in the City's financial statements.

The City should implement a formal reconciliation process where the capital expenditures recorded on the budgetary reports are reconciled to the assets capitalized in the fixed asset system. The reconciliation should be completed quarterly and Capital Assets should be updated in the system as a result of the reconciliation. Additionally, the reconciliation should be reviewed by somebody in management to ensure that the assets not capitalized meet the City's policy.

The City should develop a standard process for the disposal of its fixed assets to more accurately report financial information. Currently, the reporting of fixed asset disposals is only accomplished in the following two ways: voluntary reporting by the City Departments and in some cases through the cyclical inventory process. The City should require all department heads to submit appropriate documentation to the Controller's department before disposing of assets. This will ensure more accurate reporting of the City's capital assets activity.

The City should assign responsibility for managing the dedication of assets in the City to one individual. The responsible individual should develop a formal process of managing asset dedications. The process should include ensuring that assets dedicated are recorded properly on the City's financial statements and regular proactive communication with the finance departments of the City's component units. If the City receives these dedicated assets, its financial position will reflect a more complete picture of the Capital Assets ultimately controlled by the Primary Government.

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

2003-03 – Compensated Absences Management Process

Observations

- The Controller’s department should develop a more formal process to manage the accounting for compensated absences and have regular communication with the Payroll department, especially at year-end. We identified errors with the accounting for frozen balances, identified double counting of personal accruals, missing FICA on sick-day accruals, and missing vacation weeks.
- Various department heads are not reviewing their departmental bi-weekly payroll register for accuracy and completeness.

Recommendations

The Controller’s department should enhance its process of managing and accounting for compensated absences. Communication between the Controller’s department and the Payroll department should be more regular and more detailed, especially during the closing process. For each accrual, a detailed discussion should be held and action should be taken to correct all errors identified. This will ensure more accurate reporting of the City’s compensated absences liabilities.

Each department head should review their respective department’s bi-weekly payroll register for accuracy and completeness on a timely basis and document that review with the Payroll department. Any errors should be brought to the director of the Payroll department’s attention and resolved, and actual results should be compared to budgeted estimates. This will ensure more accurate payroll related activity reflected in the City’s financial statements.

(3) Findings and Questioned Costs Relating to Federal Awards

2003-04 – Home Investment Partnership Program: Subrecipient Monitoring

Federal CFDA #14.239

City of Pittsburgh Department: Community Development

Type of Finding: Noncompliance

Criteria

Per the OMB Circular A-133 Compliance Supplement, the following are required of entities that pass through awards to other entities:

Award Identification - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

CITY OF PITTSBURGH, PENNSYLVANIA

Schedule of Findings and Questioned Costs

Year ended December 31, 2003

During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits - (1) Ensuring that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

The Community Development Department did not perform adequate During-the-Award Monitoring in accordance with federal requirements.

Cause

Due to budget constraints at the City in fiscal year 2003, no site visit was performed for the subrecipient of this program. During-the-Award Monitoring was limited to informal communications between program management and the subrecipient.

Effect

Subrecipient noncompliance may have occurred without the knowledge of the Community Development Department.

Recommendation

The Community Development Department should perform annual site visits for subrecipients in order to perform a detailed review of expenditures charged to the federal program.

Questioned Costs

Questioned costs are not determinable.