

**County of Lackawanna,  
Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2013



# County of Lackawanna, Pennsylvania

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## Independent Auditors' Report

Commissioners of Lackawanna County  
Scranton, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Department of Human Services Office of Youth and Family Services (a department of the General Fund), which represents 4.8% and 15.0%, respectively of the assets and revenues of the General Fund and 0.8% and 9.0%, respectively of the assets and revenues of the Governmental Activities. We did not audit the Lackawanna County Area Agency on Aging and Child Care Information Services of Lackawanna County (departments of the Health and Human Services Fund) and the Lackawanna County Commission on Drug and Alcohol Abuse (a blended component unit of the Health and Human Services Fund), which collectively represent 77.0%, 20.0%, and 100%, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 1.0%, 0.6%, and 12.0%, respectively of the assets, net position, and revenues of the Governmental Activities. We did not audit the financial statements of the Pension Trust Fund which represents 97%, 100% and 100% of the assets, net position, and revenues, respectively, of the Fiduciary Fund. Finally, we did not audit the Scranton Lackawanna Health and Welfare Authority, the Lackawanna County Library System, the Lackawanna County Redevelopment Authority, the Lackawanna County River Basin Sewer Authority, the Lackawanna County Transit System Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority which represent 100% of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lackawanna County Department of Human Services Office of Children and Family Services, Lackawanna County Area Agency on Aging, Child Care Information Services of Lackawanna County, Lackawanna County Commission on Drug and Alcohol Abuse, Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Lackawanna County Redevelopment Authority, Lackawanna County River Basin Sewer Authority, Lackawanna County Transit System Authority, Multi-purpose Stadium Authority of Lackawanna County and Lackawanna County Performing Arts Center Authority, is based solely on the report 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As discussed in Notes 1 and 19 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013 to conform to accounting principles generally accepted in the United States of America. The County restated its beginning, January 1, 2013, Governmental Activities Net Position for this adoption.

As disclosed in Note 21 to the financial statements, the County restated its beginning, January 1, 2013, Governmental Activities Net Position to capitalize prior grant funded bridge improvements.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 14, the budgetary comparison information on page 58 and the schedule of funding progress for the Pension Trust Fund on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated September 30, 2014 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Parente Beard LLC".

Wilkes-Barre, Pennsylvania  
September 30, 2014

# **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

This Management's Discussion and Analysis ("MD&A") is intended to provide a narrative overview and analysis of the financial activities of the County of Lackawanna, Pennsylvania (the "County") for the year ended December 31, 2013 compared to the year ended December 31, 2012. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

## **Financial Highlights**

Overall, the County's liabilities exceed the assets by \$113,328,622 at December 31, 2013.

General Fund revenues exceeded expenses in 2013 by \$5,948,853. This increased the General Fund balance from \$1,461,152 at December 31, 2012 to a fund balance of \$7,410,005 at December 31, 2013.

The County Commissioners continued along the path of fiscal constraint through responsible management of expenses as well as increasing realizable revenues, without impairing the provision of essential services to the residents of the County. With implementation of tax increases for both 2012 and 2013, and with continued fiscal restraint spearheaded by the County Commissioners, the County's financial position is becoming more stable. Beginning in 2008 and continuing through 2013 the Commissioners undertook a governmental reorganization in order to more efficiently manage all of the diverse departments within Lackawanna County government. This reorganization resulted in a significant decrease of County personnel as well as more efficient and streamlined government. The Commissioners are committed to continuing to look at the way Lackawanna County does business and to make the necessary changes needed to maintain the operational efficiencies which have been achieved.

In addition to the austerity measures implemented by the Commissioners, real estate taxes were increased by 4.4% or 2.42 mills in the 2013 County budget. With the implementation of the governmental reorganization and the Commissioners fiscal restraints along with tax increases in both 2012 and 2013 the Commissioners were able to hold the line on taxes and were able to present a 2014 County budget without any real estate tax increase.

## **Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net position (deficit) and the statement of activities. The statement of net position (deficit) reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net position (deficit) changed during the most recent fiscal year. All changes in the net position (deficit) are reported as soon as the underlying event giving rise to the change 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 and unused compensated absences.)

The government-wide financial statements can be found on pages 15-16 of this report.

# **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The County uses three types of funds: governmental funds, proprietary 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 the County's near-term financing requirements.

Because the focus of governmental 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 County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the County's major funds, which are the General Fund, Health and Human Services Fund, Debt Service Fund and the Capital Projects Fund. All of the governmental funds that are not considered individually significant have been aggregated and are collectively reported under the caption "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General and Debt Service Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 58.

The basic fund financial statements can be found on pages 17-23 of this report.

## **Fiduciary Funds**

The County accounts for the assets held under trust or in an agent capacity in fiduciary funds. Assets held in trust in the County retirement plan are accounted for in the Pension Trust Fund. Assets held in a custodial or agent function are accounted for in the Agency Fund. Fiduciary funds are not reported in the government-wide financial statements since they are not available to support the County operation.

The basic Fiduciary Fund financial statements can be found on pages 24-25 of this report.

# County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-57 of this report.

### Governmental Activities Condensed Statement of Net Position (Deficit) December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current and other assets	\$ 57,982,544	\$ 60,628,750
Capital assets, net	<u>116,965,761</u>	<u>111,294,470</u>
Total assets	<u>\$ 174,948,305</u>	<u>\$ 171,923,220</u>
<b>Liabilities, Deferred Inflows of Resources</b>		
Current liabilities	\$ 34,519,149	\$ 36,813,292
Long term and other liabilities	<u>253,757,778</u>	<u>256,251,420</u>
Total liabilities	<u>\$ 288,276,927</u>	<u>\$ 293,064,712</u>
<b>Net Position (Deficit)</b>		
Net investment in capital assets	\$ (77,136,892)	\$ (77,404,676)
Restricted	2,978,769	1,104,057
Unrestricted	<u>(39,170,499)</u>	<u>(44,840,873)</u>
Total net deficit	<u>\$ (113,328,622)</u>	<u>\$ (113,328,622)</u>

Total Assets of the Lackawanna County primary government increased by \$3,025,086 from 2012 to 2013 from \$171,923,220 to \$174,948,305. This amounts to a 1.7% increase.

The County's Total Liabilities decreased by \$4,787,785 in 2013, which represents a 1.6% decrease.

# County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

## Condensed Statement of Governmental Activities Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Governmental Activities</b>		
Program Revenues:		
Charges for services	\$ 27,500,272	\$ 27,359,258
Operating Grants and contributions	43,751,491	42,539,687
Capital grants and contributions	3,091,057	15,209,659
General Revenues:		
Tax levy for general purposes, net	78,954,133	73,627,311
Contributions and other, net	491,160	2,701,508
	<u>153,788,113</u>	<u>161,437,423</u>
Total revenues		
Expenses:		
General government – administrative	21,897,449	20,233,855
General government – judicial	20,619,583	21,417,046
Corrections	32,587,748	32,079,294
Public works and enterprises	3,116,936	3,958,158
Human services	34,024,905	38,082,715
Culture and recreation	6,295,452	21,559,170
Conservation and development	4,096,459	2,881,883
Depreciation	5,081,552	5,098,254
Interest-long term debt	12,152,580	13,559,751
	<u>139,872,664</u>	<u>158,870,126</u>
Total expenses		
Changes in net position	13,915,449	2,567,297
Net deficit, beginning, as restated	<u>(127,244,071)</u>	<u>(123,708,789)</u>
Net deficit, ending	<u>\$ (113,328,622)</u>	<u>\$ (121,141,492)</u>

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

### Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2012.

	<b>2013 Amount</b>	<b>2012 Amount</b>	<b>Increase (Decrease)</b>	<b>% Change</b>	
Taxes	\$ 57,108,472	\$ 53,191,157	\$ 3,917,315	7.36	%
Intergovernmental	16,754,048	17,191,824	(437,776)	-2.55	
Charges for service	19,522,678	18,466,496	1,056,182	5.72	
Other	341,411	397,714	(56,303)	-14.16	
Proceeds from MPSA	-	14,600,000	(14,600,000)	N/A	
Transfers in	830,696	2,500,701	(1,670,005)	-66.78	
<b>Total revenue</b>	<b>\$ 94,557,305</b>	<b>\$ 106,347,892</b>	<b>\$ (11,790,587)</b>	<b>(11.09)</b>	<b>%</b>

Total revenue in the General Fund decreased by \$11,790,587 or approximately 11% from 2012 to 2013.

The decrease in revenue between 2012 and 2013 is a result of recognizing \$14,600,000 of revenue in 2012 of "Proceeds from MPSA" which was a repayment by the Multi Purpose Stadium Authority of Lackawanna County of amounts which had previously been loaned to the Stadium Authority for purposes of subsidizing that entity's operations.

The County's revenue, exclusive of the proceeds from MPSA amounts, increased by \$2,809,413 from 2013 to 2012. This increase was due primarily to a tax increase during 2013 that resulted in tax revenue increasing by \$3,917,315. In addition, transfers in decreased between 2012 and 2013 because in 2012 the transfers in included \$1,894,476 of transfers from the Hotel Tax Fund to the General Fund to provide program grants to the Multi Purpose Stadium Authority in order to subsidize repayment of the Authority's debt related to a major renovation of the Stadium owned by the Authority.

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

The following represents a summary of General Fund expenditures, by function, along with changes from 2012.

	<b>2013 Amount</b>	<b>2012 Amount</b>	<b>Increase (Decrease)</b>	<b>% Change</b>	
General government – administrative	\$ 18,492,133	\$ 16,090,625	\$ 2,401,508	14.92	%
General government – judicial	17,850,384	18,144,717	(294,333)	( 1.62)	
Public safety – corrections	28,654,905	27,546,700	1,108,205	4.02	
Public works	56,790	71,080	(14,290)	(20.10)	
Health and human services	14,376,467	16,835,236	(2,458,769)	(14.60)	
Culture and recreation	2,457,283	2,673,705	(216,422)	( 8.09)	
Community and economic development	382,405	384,432	(2,027)	(0.53)	
Miscellaneous	801,846	878,407	(76,561)	(8.72)	
Debt service	109,083	165,812	(56,729)	(34.21)	
Other	526,603	16,425,603	(15,899,000)	(96.79)	
Transfers	4,900,553	5,035,182	(134,629)	( 2.67)	
<b>Total expenses</b>	<b>\$ 88,608,452</b>	<b>\$ 104,251,499</b>	<b>\$ (15,643,047)</b>	<b>(15.01)</b>	<b>%</b>

Total expenses in the General Fund decreased by \$15,643,047 or approximately 15% from 2012 to 2013.

Expenses within the general government – administrative category increased by \$2,401,508 because of a number of reasons. First of all the 2012 real estate tax increase caused the County to increase its reserve for uncollectable taxes by \$1,224,436, which resulted in an increase in bad debt expense in 2013. The move of employees salaries, wages and benefits, which had previously been recorded outside the General Fund, resulted in an increase in General government – administrative expenses in the amount of \$786,275.

Health and Human Services expenses decreased by \$2,458,769 between 2012 and 2013 due principally to removing the Coordinated Transportation Department from the County into a component unit of the County, COLTS, resulting in a decrease in the amount of approximately \$1,650,000.

The decrease in Other expenses of \$15.9 million dollars from 2012 to 2013 is the result of transactions recorded in 2012 whereby the County provided a capital grant to the Multi Purpose Stadium Authority in the amount of \$7,300,000. In addition the County reserved \$7,300,000 of revenue received and reported as income in 2012 consisting of transfers from the Stadium Authority, which may need to be paid to another County, pending current litigation.

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2013:

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>Favorable (Unfavorable)</u>	<u>% Change</u>	
Taxes	\$ 55,671,512	\$ 57,108,472	\$ 1,436,960	2.58	%
Intergovernmental	16,590,509	16,754,048	163,539	0.99	
Charges for service	18,487,450	19,522,678	1,035,228	5.60	
Other	260,502	341,411	80,909	31.06	
Transfers in	-	830,696	830,696	N/A	
Total revenue	<u>\$ 91,009,973</u>	<u>\$ 94,557,305</u>	<u>\$ 3,547,332</u>	<u>3.9</u>	<u>%</u>

Overall, the County's General Fund revenue exceeded its budget by \$3,547,332. The reason for the variance was that the County's tax collection rates in 2013 were better than anticipated when the Budget was prepared. In addition, Charges for Services reflects a positive variance because the County Prison began charging the State for housing State Parole Violators during 2013, but those charges were unknown when the County Budget was prepared for 2013.

The Transfers In account grouping includes a positive variance when looking at actual compared to budgeted revenues because, during 2013, transfers from the Hotel Tax Fund to the General Fund to support grants to the Multi Purpose Stadium Authority in order that the Authority could make timely debt service payments amounted to \$526,603 and transfers from the Capital Fund to the General Fund, in the amount of \$283,411 to support the build out of the County's Wireless Network, were not considered when the Budget was being prepared.

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2013:

	<b>2013 Budget</b>	<b>2013 Actual</b>	<b>Favorable (Unfavorable)</b>	<b>% Change</b>	
General government – administrative	\$ 18,086,199	\$ 18,492,133	\$ (405,934)	( 2.20)	%
General government – judicial	18,309,705	17,850,384	459,321	2.57	
Public safety – corrections	29,479,828	28,654,905	824,923	2.88	
Public works	121,818	56,790	65,028	114.51	
Health and human services	15,167,588	14,376,467	791,121	5.50	
Culture and recreation	2,693,037	2,457,283	235,754	9.59	
Community and economic development	375,232	382,405	(7,173)	(1.88)	
Miscellaneous	860,410	801,846	58,564	7.30	
Debt service	225,000	109,083	115,917	106.26	
Other	-	526,603	(526,603)	(100.00)	
Transfers	5,316,381	4,900,553	415,828	8.49	
<b>Total expenses</b>	<b>\$ 90,635,198</b>	<b>\$ 88,608,452</b>	<b>\$ 2,026,746</b>	<b>2.29</b>	<b>%</b>

The total expenses for 2013 decreased marginally, 2.29%, compared to the amount budgeted for 2013. During 2013 the Commissioners continued to stress to department heads the need to continue to be frugal as the County continues along the path of restoring financial stability.

The General government – administrative, General government – judicial, Public safety–corrections, Public works, Health and Human Services, Culture and recreation, Community and economic development, miscellaneous, and, Debt service expenses were down compared to budget principally due to department heads continuing to hold the line on purchasing as well as the County's Purchasing Department scrutinizing all purchases to make certain the County is getting the best possible pricing.

Other expenses consist of project grants to the Multi Purpose Stadium Authority to assist the Authority in payment of debt service on the Stadium renovation project, which weren't considered when the County budget was prepared for 2013.

### Health and Human Services Fund (Major Fund)

The Health and Human Services Fund accounts for revenues and expenses for the provision of social services within the County. These services include Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund revenues and expenses decreased by \$2,462,864 and \$1,737,712 respectively.

The Health and Human Service Fund has a fund balance of \$353,962. This is a decrease of \$257,302 from the 2012 final ending fund balance of \$611,264.

## **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

### **Debt Service Fund (Major Fund)**

The Debt Service fund accounts for resources accumulated for the payment of long term obligations, primarily bonds. A portion of the County real estate tax levy is used to fund the expenditures within this fund as well as transfers from other funds for which the specific debt was issued.

See Note 6 for additional information regarding the County's outstanding debt.

### **Capital Projects Fund (Major Fund)**

The County Capital Projects fund balance decreased from \$4,467,687 at December 31, 2012 to \$4,415,703 at December 31, 2013. The County budgeted \$1,250,000 for infrastructure improvements, primarily to be utilized for road and bridge repairs and replacements within the County. During 2013 the County expended just over the \$1,250,000 which was transferred into the Capital Fund resulting in a decrease in the fund's Fund Balance amounting to \$51,984 from 2012 to 2013.

### **Internal Service Fund (Proprietary Fund)**

The Internal Service Fund accounts for the County's self-insured workers compensation program. This program is monitored by the Commonwealth of Pennsylvania Bureau of Labor and Industry. The Bureau of Labor and Industry requires that the County maintains an irrevocable trust account for the payment of future benefits. The County's actuarially determined reserve/estimate for unpaid losses amounted to \$1,565,048 at December 31, 2013. The fund's total assets at December 31, 2013 were \$1,265,458, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of \$299,590 as of December 31, 2013. This is an increase of \$130,310 in the fund deficit of \$169,280 reported at December 31, 2012.

### **Pension Trust Fund**

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$18,395,719 during 2013 resulting in Plan net position of \$157,794,006 at December 31, 2013. Plan net position was \$139,398,287 at December 31, 2012.

Plan contributions by members amounted to \$3,755,272 and \$3,759,580 in 2013 and 2012, respectively. Benefits paid to retired members were \$8,674,573 and \$6,532,670 in 2013 and 2012, respectively.

### **Agency Fund**

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$4,954,108 in that role as of December 31, 2013.

## County of Lackawanna, Pennsylvania

### Management's Discussion and Analysis

(Unaudited)

December 31, 2013

### Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2013 was as follows:

	January 1, 2013	Acquisitions	Disposals	Transfer	December 31, 2013
Non-depreciable capital assets:					
Land	\$ 3,533,235	\$ -	-	\$ -	\$ 3,533,235
Construction-in-progress	6,163,371	4,728,163	-	(425,099)	10,466,435
Total non-depreciable capital assets	9,696,606	4,728,163	-	(425,099)	13,999,670
Depreciable capital assets:					
Buildings and improvements	114,483,615	909,720	-	204,183	115,597,518
Machinery and equipment	37,780,765	630,314	(504,066)	-	37,907,013
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	36,917,413	882,669	-	220,916	38,020,998
Investment in Airport	8,727,567	-	-	-	8,727,567
Total depreciable capital assets	199,332,685	2,422,703	(504,066)	425,099	201,676,421
Less accumulated depreciation:					
Buildings and improvements	(28,256,983)	(2,839,460)	-	-	(31,096,443)
Machinery and equipment	(32,877,795)	(1,473,198)	308,904	-	(34,042,089)
Equipment under capital lease	(687,420)	(94,888)	-	-	(782,308)
Infrastructure	(28,907,409)	(512,780)	-	-	(29,420,189)
Investment in Airport	(3,208,075)	(161,226)	-	-	(3,369,301)
Total accumulated depreciation	(93,937,682)	(5,081,552)	308,904	-	(98,710,330)
Net depreciable capital assets	105,395,003	(2,658,849)	(195,162)	425,099	102,966,091
Total	\$ 115,091,609	\$ 2,069,314	\$ (195,162)	\$ -	\$ 116,965,761

At December 31, 2013, the County has committed an additional \$1,353,376 to various ongoing construction projects. Total capital assets increased from \$115,091,609 at December 31, 2012 to \$116,965,761 at December 31, 2013.

### Long Term Debt

As of December 31, 2013, the County's net general obligation debt was \$229,145,438 net of related discount. This amount represents approximately 87% of the legal limit as calculated in 2013.

### Economic Condition and Outlook

The County administration continues to closely monitor its debt portfolio. During 2013 and in future years the County will continue to pursue possibilities to further limit variable interest rate exposure and its exposure to derivative instruments, and take advantage of what is still a favorable interest rate environment.

## **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2013

The Commissioners have tasked the administration with continuous review of all County operations. The Commissioners also continue to streamline current County government where possible including reducing its work force without cutting or sacrificing services to the taxpayers, utilizing innovative energy savings programs, technological innovations, restructuring purchasing policies, as well as, continuing the County's innovative vehicle and travel policies.

The County's 2013 budget included a 2.42 mil real estate tax increase. This increase was expected to generate approximately \$3,600,000 in additional tax revenue for County operations. This tax increase was implemented principally to fund the County Commissioners' Economic Development programs which were developed with the intent of creating life sustaining jobs in the County. The programs, a Jobs Creation Incentive and a Community Reinvestment program were developed by the Commissioners to sustain jobs in the County in addition to making a concerted effort to bring new jobs to the County. As of December 31, 2013, \$1,107,537 of the 2013 funds dedicated to these programs remained unspent, and those funds are classified in the accompanying financial statements as "Fund Balance-Assigned". The Commissioners intend to continue to fund these initiatives with the intent of strengthening the local economy.

The Commissioners have continued in their commitment to allocate substantial funds for the upgrade and replacement of the aging County infrastructure. In addition the Commissioners have continued their commitment to expansion of the County Parks and Recreation system. The Commissioners are also developing incubator programs in order to assist the community in development of small business in both the retail and service sectors. The Commissioners are expecting their Economic Development initiatives to pay dividends in the future success and sustainability of the County.

The County will continue to pursue new and innovative programs to further the Commissioners vision for enhancing the economic climate of the County and will continue to allocate funds in its annual budget to further these initiatives.

### **Requests for Information**

Questions concerning any of the information contained in this report or requests for additional information should be addressed to the office of Lackawanna County Commissioners, County of Lackawanna, 200 Adams Avenue, Scranton, PA 18503.

**County of Lackawanna, Pennsylvania**

Statement of Net Position

December 31, 2013

<b>Assets</b>	<b>Governmental Activities</b>	<b>Component Units</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,561,728	\$ 20,171,507
Restricted cash	-	8,062,230
Investments	1,090,800	187,933
Restricted investments	-	1,967,323
Accounts receivable, net	1,320,951	52,198,718
Inventory	34,457	-
Due from agency fund	3,282,057	-
Due from other governments, net	8,545,286	6,352,465
Due from component units	12,393,710	-
Taxes receivable, net	8,163,894	352,103
Other assets	392,478	803,705
	<hr/>	<hr/>
Total current assets	51,785,361	90,095,984
<b>Capital Assets, Net</b>	116,965,761	128,046,884
<b>Assets Held for Capital Projects</b>	6,197,183	-
<b>Other Noncurrent Assets</b>	-	777,688
	<hr/>	<hr/>
Total assets	<u>\$ 174,948,305</u>	<u>\$ 218,920,556</u>
<b>Liabilities and Net Position (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 7,714,389	\$ 2,925,096
Accrued expenses	12,162,218	600,671
Current portion:		
Net pension obligation	4,139,516	-
Bond and notes payable	7,952,837	3,810,142
Capital lease obligations	180,892	-
Compensated absences	236,660	177,850
Due to primary government	-	8,531,161
Unearned revenues	567,589	8,378,146
Escrow liability	-	4,264,782
Claims payable	1,565,048	-
Other liabilities	-	78,950
	<hr/>	<hr/>
Total current liabilities	34,519,149	28,766,798
<b>Noncurrent Liabilities</b>		
Bonds and notes payable, net	221,192,601	46,003,537
Capital lease obligation	109,482	-
Nonrecourse debt issues	-	48,778,379
Net pension obligation	19,969,511	-
Investment derivative - pay variable / receive variable basis swap	9,801,987	-
Investment derivative - pay fixed / receive variable basis swap	-	122,431
Compensated absences	2,684,197	1,010,003
	<hr/>	<hr/>
Total liabilities	288,276,927	124,681,148
<b>Deferred Inflows of Resources</b>		
Deferred service concession arrangement receipts	-	1,624,817
	<hr/>	<hr/>
<b>Net Position (Deficit)</b>		
Net investment in capital assets	(77,136,892)	78,974,639
Restricted	2,978,769	1,187,617
Unrestricted	(39,170,499)	12,452,335
	<hr/>	<hr/>
Total net position (deficit)	(113,328,622)	92,614,591
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 174,948,305</u>	<u>\$ 218,920,556</u>

**County Of Lackawanna, Pennsylvania**

Statement of Activities  
Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Component Units
<b>Primary Government</b>						
Governmental activities:						
General government - administrative	\$ (21,897,449)	\$ 6,988,542	\$ 434,728	\$ -	\$ (14,474,179)	
General government - judicial	(20,619,583)	6,743,370	1,435,597	175,000	(12,265,616)	
Public safety - corrections	(32,587,748)	8,527,220	3,095,412	-	(20,965,116)	
Public works and enterprises	(3,116,936)	68,119	3,201,633	-	152,816	
Health and human services	(34,024,905)	167,709	33,087,845	243,257	(526,094)	
Culture and recreation	(6,295,452)	4,117,007	-	-	(2,178,445)	
Community and economic development	(4,096,459)	888,305	2,496,276	2,672,800	1,960,922	
Unallocated depreciation	(5,081,552)	-	-	-	(5,081,552)	
Interest on long-term debt	(12,152,580)	-	-	-	(12,152,580)	
Total governmental activities	<u>\$ (139,872,664)</u>	<u>\$ 27,500,272</u>	<u>\$ 43,751,491</u>	<u>\$ 3,091,057</u>	<u>(65,529,844)</u>	
<b>Component Units</b>						
Scranton Lackawanna Health and Welfare Authority	\$ (9,151,841)	\$ 33,369	\$ -	\$ -		\$ (9,118,472)
Lackawanna County Library System	(5,195,943)	220,000	951,615	-		(4,024,328)
Lackawanna County Redevelopment Authority	(202,049)	-	-	-		(202,049)
Lackawanna County River Basin Sewer Authority	(8,114,289)	8,349,118	-	-		234,829
County of Lackawanna Transit System Authority	(12,383,576)	3,716,096	8,521,686	6,587,014		6,441,220
Multi-Purpose Stadium Authority of Lackawanna County	(11,083,778)	-	-	21,526,519		10,442,741
Lackawanna County Performing Arts Center Authority	(670,830)	629,123	-	-		(41,707)
Total component units	<u>\$ (46,802,306)</u>	<u>\$ 12,947,706</u>	<u>\$ 9,473,301</u>	<u>\$ 28,113,533</u>		<u>3,732,234</u>
<b>General revenues (expenses)</b>						
Taxes levied for general purposes, net					78,954,133	4,566,650
Rental income					-	9,746,904
Interest income (expense)					(171,175)	198,646
Contributions and other revenue					255,848	719,200
Miscellaneous revenue					813,198	-
Transfers					200	-
Change in fair value of investment derivative					(211,749)	-
Loss on sale of assets					(195,162)	-
Total general revenues (expenses)					<u>79,445,293</u>	<u>15,231,400</u>
<b>Change in net (deficit) position</b>					<u>13,915,449</u>	<u>18,963,634</u>
<b>Net (deficit) position, beginning</b>						
As previously reported					(121,141,492)	74,521,436
Restatement					3,797,139	-
Effect of adoption of GASB No. 65					(9,899,718)	(870,479)
As restated					<u>(127,244,071)</u>	<u>73,650,957</u>
<b>Net (deficit) position, ending</b>					<u>\$ (113,328,622)</u>	<u>\$ 92,614,591</u>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Balance Sheet  
 Governmental Funds  
 December 31, 2013

	<u>General Fund</u>	<u>Health And Human Services Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 9,636,286	\$ 1,544,611	\$ 2,056,397	\$ 6,182,275	\$ 3,324,434	\$ 22,744,003
Investments	-	-	-	14,908	-	14,908
Inventory	34,457	-	-	-	-	34,457
Due from other funds	5,440,517	644,214	3,210,425	567,127	625,002	10,487,285
Other receivables	148,296	-	-	361,915	810,740	1,320,951
Due from other governments, net	4,017,519	80,011	934,378	3,227,082	286,296	8,545,286
Prepaid expenses	217,820	-	-	-	-	217,820
Taxes receivable, net	8,163,894	-	-	-	-	8,163,894
<b>Total</b>	<u>\$ 27,658,789</u>	<u>\$ 2,268,836</u>	<u>\$ 6,201,200</u>	<u>\$ 10,353,307</u>	<u>\$ 5,046,472</u>	<u>\$ 51,528,604</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,647,142	\$ 1,822,227	\$ 3,229	\$ 1,585,374	\$ 656,417	\$ 7,714,389
Accrued liabilities	1,889,437	(95,442)	96,595	-	217,580	2,108,170
Accrued pension	4,139,516	-	-	-	-	4,139,516
Due to other funds	1,803,461	60,876	163,592	4,205,113	972,186	7,205,228
Unearned revenue	-	127,213	-	147,117	293,259	567,589
<b>Total liabilities</b>	<u>11,479,556</u>	<u>1,914,874</u>	<u>263,416</u>	<u>5,937,604</u>	<u>2,139,442</u>	<u>21,734,892</u>
Deferred Inflows of Resources						
Deferred tax revenue	<u>8,769,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,769,228</u>
<b>Fund Balances (Deficit)</b>						
Non-spendable	252,277	-	-	-	-	252,277
Restricted	-	861,717	5,937,784	4,415,703	2,499,240	13,714,444
Assigned	1,107,537	-	-	-	570,476	1,678,013
Unassigned	<u>6,050,191</u>	<u>(507,755)</u>	<u>-</u>	<u>-</u>	<u>(162,686)</u>	<u>5,379,750</u>
<b>Total fund balances</b>	<u>7,410,005</u>	<u>353,962</u>	<u>5,937,784</u>	<u>4,415,703</u>	<u>2,907,030</u>	<u>21,024,484</u>
<b>Total</b>	<u>\$ 27,658,789</u>	<u>\$ 2,268,836</u>	<u>\$ 6,201,200</u>	<u>\$ 10,353,307</u>	<u>\$ 5,046,472</u>	<u>\$ 51,528,604</u>

See notes to financial statements

## County of Lackawanna, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
December 31, 2013

**Total Fund Balances - Governmental Funds** \$ 21,024,484

Amounts reported for governmental activities  
in the statement of net position are different because:

Net deficit of the Internal Service Fund is included in  
governmental activities since it primarily benefits the  
County's governmental activities. (299,590)

Capital assets used in governmental activities are not  
financial resources and therefore are not reported as  
assets in governmental funds. 116,965,761

Some of the County's taxes will be collected after year-end,  
but are not available soon enough to pay for the current period's  
expenditures, and therefore are not reported as deferred revenue  
in the funds. 8,769,228

Long-term receivables from bonds and notes payable issued  
by the County and loaned to component units are not due and  
received in the current period and therefore are not reported  
as receivables in the funds. 12,393,710

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

Bonds and notes payable, net	\$ 229,145,438	
Net pension obligation	19,969,511	
Capital lease obligation	290,374	
Compensated absences	<u>2,920,857</u>	
		(252,326,180)

The fair value of derivative instruments used in governmental  
activities are not financial resources and therefore are not  
reported in the governmental funds. (9,801,987)

Accrued litigation claims (included in accrued expenses). (7,390,000)

Accrued interest payable is included in the statement  
of net position (included in accrued expenses). (2,664,048)

**Total Deficit - Governmental Activities** \$ (113,328,622)

**County of Lackawanna, Pennsylvania**

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds

Year Ended December 31, 2013

	Major Funds					Total Governmental Funds
	General Fund	Health And Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
<b>Revenues</b>						
Taxes	\$ 56,852,624	\$ -	\$ 19,592,107	\$ -	\$ 1,288,250	\$ 77,732,981
Payments in lieu of taxes	255,848	-	-	-	-	255,848
Intergovernmental	16,754,048	18,711,738	-	3,431,307	7,516,348	46,413,441
Charges for service	19,522,678	60,979	-	-	6,801,165	26,384,822
Court costs, fines and forfeitures	12,586	-	-	-	21,758	34,344
Interest and rent	14,270	(35,212)	7,034	1,788	2,413	(9,707)
Contributions and other	314,555	-	-	847,455	229,368	1,391,378
<b>Total revenues</b>	<b>93,726,609</b>	<b>18,737,505</b>	<b>19,599,141</b>	<b>4,280,550</b>	<b>15,859,302</b>	<b>152,203,107</b>
<b>Expenditures</b>						
Current:						
General government- administrative	18,492,133	14,606	25,746	11,263	111,328	18,655,076
General government - judicial	17,850,384	-	-	-	2,837,195	20,687,579
Public safety and corrections	28,654,905	-	-	-	3,936,872	32,591,777
Public works and enterprises	56,790	-	-	-	2,692,485	2,749,275
Health and human services	14,376,467	18,980,161	-	-	211,142	33,567,770
Culture and recreation	2,457,283	-	-	-	3,239,915	5,697,198
Community and economic development	382,405	-	-	-	2,255,383	2,637,788
Miscellaneous expenses	801,846	-	-	-	35,063	836,909
Debt service:						
Principal	-	-	6,530,487	-	-	6,530,487
Interest	109,083	-	11,828,055	-	-	11,937,138
Capital outlay	-	-	-	8,463,996	-	8,463,996
<b>Total expenditures</b>	<b>83,181,296</b>	<b>18,994,767</b>	<b>18,384,288</b>	<b>8,475,259</b>	<b>15,319,383</b>	<b>144,354,993</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>10,545,313</b>	<b>(257,262)</b>	<b>1,214,853</b>	<b>(4,194,709)</b>	<b>539,919</b>	<b>7,848,114</b>
<b>Other Financing Sources (Uses)</b>						
Capital grant to Multi-Purpose Stadium Authority	(526,603)	-	-	-	-	(526,603)
Note proceeds	-	-	2,834,108	-	-	2,834,108
Note issue costs	-	-	(6,854)	-	-	(6,854)
Transfers in	830,696	-	-	4,426,136	2,400,993	7,657,825
Transfers out	(4,900,553)	(40)	(2,827,254)	(283,411)	(526,675)	(8,537,933)
<b>Total other financing sources (uses)</b>	<b>(4,596,460)</b>	<b>(40)</b>	<b>-</b>	<b>4,142,725</b>	<b>1,874,318</b>	<b>1,420,543</b>
<b>Net Change in Fund Balance</b>	<b>5,948,853</b>	<b>(257,302)</b>	<b>1,214,853</b>	<b>(51,984)</b>	<b>2,414,237</b>	<b>9,268,657</b>
<b>Fund Balances, Beginning</b>	<b>1,461,152</b>	<b>611,264</b>	<b>4,722,931</b>	<b>4,467,687</b>	<b>492,793</b>	<b>11,755,827</b>
<b>Fund Balances, Ending</b>	<b>\$ 7,410,005</b>	<b>\$ 353,962</b>	<b>\$ 5,937,784</b>	<b>\$ 4,415,703</b>	<b>\$ 2,907,030</b>	<b>\$ 21,024,484</b>

See notes to financial statements

## County of Lackawanna, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and  
Change in Fund Balance of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2013

<b>Total Net Change In Fund Balances - Governmental Funds</b>	<b>\$ 9,268,657</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Net loss of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.	(130,310)
Capital asset additions are reported as expenditures in the governmental funds.	7,150,866
Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities.	(195,162)
Depreciation expense on capital assets is reported in the statement of activities.	(5,081,552)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in revenue accrued between the prior and current year.	1,221,150
Proceeds from the issuance of bonds payable are considered current financial resources and reported in the funds but not the statement of activities.	(2,834,108)
Repayment of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities.	7,654,642
Amortization of premiums and deferred refunding charges.	(357,607)
Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period.	(211,748)
Change in the net pension obligation.	(2,595,241)
Change in accrued interest on bonds payable.	45,526
Change in compensated absences.	(19,664)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 13,915,449</u></b>

# County of Lackawanna, Pennsylvania

## Statement of Net Deficit - Proprietary Fund

December 31, 2013

	<u>Internal Service Fund</u>
<b>Assets</b>	
<b>Current Assets</b>	
Investments	\$ 1,090,800
Prepaid expenses	<u>174,658</u>
Total	<u><u>\$ 1,265,458</u></u>
<b>Liabilities and Net Deficit</b>	
<b>Current Liabilities</b>	
Claims payable	\$ 1,565,048
<b>Net Deficit,</b> Unrestricted	<u>(299,590)</u>
Total	<u><u>\$ 1,265,458</u></u>

See notes to financial statements

**County of Lackawanna, Pennsylvania**Statement of Revenues, Expenses, and Change in Net Deficit - Proprietary Fund  
Year Ended December 31, 2013

	<b>Internal Service Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 17,091
<b>Operating Expenses</b>	
Workers' compensation claims	649,619
Administrative	180,107
Total operating expenses	829,726
<b>Operating Loss</b>	(812,635)
<b>Nonoperating Revenues (Expenses)</b>	
Unrealized loss on investments	(229,171)
Interest income	31,388
Transfer in	880,108
Total nonoperating revenues (expenses)	682,325
<b>Net Loss</b>	(130,310)
<b>Net Deficit, Beginning</b>	(169,280)
<b>Net Deficit, Ending</b>	\$ (299,590)

*See notes to financial statements*

# County of Lackawanna, Pennsylvania

## Statement of Cash Flows - Proprietary Fund

December 31, 2013

	<b>Internal Service Fund</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from users	\$ 17,091
Cash payments for goods and services	(289,950)
Cash payments for insurance claims	(607,248)
	<u>(880,107)</u>
Net cash used in operating activities	<u>(880,107)</u>
<b>Cash Flows from Non-Capital Financing</b>	
Transfers in, net	<u>880,108</u>
<b>Cash Flows from Investing Activities</b>	
Interest income	31,388
Purchase of investments	(31,389)
	<u>(1)</u>
Net cash used in investing activities	<u>(1)</u>
<b>Net Change in Cash</b>	-
<b>Cash, Beginning</b>	<u>-</u>
<b>Cash, Ending</b>	<u><u>\$ -</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating loss	\$ (812,635)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Prepaid expenses	(109,843)
Claims payable	42,371
	<u>42,371</u>
Net cash used in operating activities	<u><u>\$ (880,107)</u></u>

See notes to financial statements

## County of Lackawanna, Pennsylvania

### Statement of Fiduciary Net Position

December 31, 2013

	<b>Pension Trust Fund</b>	<b>Agency Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 843,788	\$ 4,954,108	\$ 5,797,896
Plan member contributions receivable	-	-	-
Accrued interest	609,050	-	609,050
Investments, at fair value:			
Federated money market funds	6,669,184	-	6,669,184
Certificates of deposit	10,208,281	-	10,208,281
U.S. government securities	20,345,618	-	20,345,618
Tax exempt bonds	846,474	-	846,474
Corporate bonds	19,243,967	-	19,243,967
Common stocks	85,020,551	-	85,020,551
Mutual funds	14,043,835	-	14,043,835
Total investments	156,377,910	-	156,377,910
Total	\$ 157,830,748	\$ 4,954,108	\$ 162,784,856
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accrued fees	\$ 36,742	\$ -	\$ 36,742
Escrow liabilities	-	1,672,051	1,672,051
Due to other funds	-	3,282,057	3,282,057
	36,742	4,954,108	4,990,850
<b>Net Position</b>			
Held in trust for pension benefits	157,794,006	-	157,794,006
Total	\$ 157,830,748	\$ 4,954,108	\$ 162,784,856

See notes to financial statements

## County of Lackawanna, Pennsylvania

### Statement of Change in Fiduciary Net Position

Year Ended December 31, 2013

	<b>Pension Trust Fund</b>
<b>Additions</b>	
Contributions:	
Plan members	\$ 3,755,272
Employer	500,000
	<hr/>
Total contributions	4,255,272
	<hr/>
<b>Investment Income</b>	
Net appreciation in fair value of investments	21,395,290
Interest	1,591,671
Dividends	1,464,496
Investment expense	(43,793)
	<hr/>
Net investment earnings	24,407,664
	<hr/>
Total additions	28,662,936
	<hr/>
<b>Deductions</b>	
Benefits paid	8,674,573
Participant contributions refunded	810,254
Death benefits paid	326,967
Administrative expenses	455,423
	<hr/>
Total deductions	10,267,217
	<hr/>
<b>Increase in Net Position</b>	18,395,719
	<hr/>
<b>Net Position, Beginning</b>	139,398,287
	<hr/>
<b>Net Position, Ending</b>	\$ 157,794,006
	<hr/> <hr/>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Combining Balance Sheet - Discretely Presented Component Units  
December 31, 2013

	Scranton Lackawanna Health and Welfare Authority	Lackawanna County Library System	Lackawanna County Redevelopment Authority	Lackawanna County River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	Totals
<b>Current Assets</b>								
Cash and cash equivalents	\$ -	\$ 519,022	\$ 283,688	\$ 12,260,701	\$ 596,657	\$ 6,475,238	\$ 36,201	\$ 20,171,507
Restricted cash	-	-	-	-	8,062,043	-	187	8,062,230
Investments	66,707	-	-	-	121,226	-	-	187,933
Restricted investments	1,326,593	-	-	640,730	-	-	-	1,967,323
Due from other governments	2,872,617	-	-	-	687,968	2,791,880	-	6,352,465
Other receivables	48,778,379	93,469	-	979,748	593,503	24,497	1,729,122	52,198,718
Taxes receivable, net	-	352,103	-	-	-	-	-	352,103
Other current assets	-	412,565	-	48,874	340,231	2,035	-	803,705
Total current assets	53,044,296	1,377,159	283,688	13,930,053	10,401,628	9,293,650	1,765,510	90,095,984
<b>Capital Assets Not Being Depreciated</b>	-	50,000	-	-	1,175,717	-	-	1,225,717
<b>Capital Assets, Net</b>	-	883,389	-	54,062,019	11,602,959	53,727,336	6,545,464	126,821,167
<b>Other Assets</b>	9	-	-	613,913	163,766	-	-	777,688
Total	<u>\$ 53,044,305</u>	<u>\$ 2,310,548</u>	<u>\$ 283,688</u>	<u>\$ 68,605,985</u>	<u>\$ 23,344,070</u>	<u>\$ 63,020,986</u>	<u>\$ 8,310,974</u>	<u>\$ 218,920,556</u>
<b>Liabilities</b>								
Current liabilities:								
Accounts payable	\$ -	\$ 16,218	\$ -	\$ 232,981	\$ 234,552	\$ 2,438,703	\$ 2,642	\$ 2,925,096
Accrued expenses	1,135	-	-	-	411,657	85,491	102,388	600,671
Current portion of long-term debt	-	-	709,517	1,810,625	-	780,000	510,000	3,810,142
Current portion of compensated absences	-	-	-	177,850	-	-	-	177,850
Due to primary government	-	-	-	-	301,569	7,300,000	929,592	8,531,161
Deferred revenue	-	352,103	-	-	8,026,043	-	-	8,378,146
Escrow liability	4,264,782	-	-	-	-	-	-	4,264,782
Other liabilities	-	-	-	-	-	12,950	66,000	78,950
Total current liabilities	4,265,917	368,321	709,517	2,221,456	8,973,821	10,617,144	1,610,622	28,766,798
Investment derivative - pay fixed/receive variable basis swap	-	-	-	-	-	122,431	-	122,431
<b>Long-term Debt</b>	-	-	-	24,283,804	-	18,190,000	3,529,733	46,003,537
<b>Compensated Absences</b>	-	62,600	-	404,311	543,092	-	-	1,010,003
<b>Nonrecourse Debt Issues</b>	48,778,379	-	-	-	-	-	-	48,778,379
Total liabilities	53,044,296	430,921	709,517	26,909,571	9,516,913	28,929,575	5,140,355	124,681,148
<b>Deferred Inflows of Resources</b>								
Deferred service concession arrangement receipts	-	-	-	-	-	-	1,624,817	1,624,817
<b>Net Position</b>								
Net investment in capital assets	-	933,389	-	28,020,041	12,778,676	34,757,336	2,485,197	78,974,639
Restricted	-	546,700	-	640,730	-	-	187	1,187,617
Unrestricted	9	399,538	(425,829)	13,035,643	1,048,481	(665,925)	(939,582)	12,452,335
Total net position	9	1,879,627	(425,829)	41,696,414	13,827,157	34,091,411	1,545,802	92,614,591
Total	<u>\$ 53,044,305</u>	<u>\$ 2,310,548</u>	<u>\$ 283,688</u>	<u>\$ 68,605,985</u>	<u>\$ 23,344,070</u>	<u>\$ 63,020,986</u>	<u>\$ 8,310,974</u>	<u>\$ 218,920,556</u>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Combining Statement of Revenues, Expenses and Change in Net Position - Discretely Presented Component Units

Year Ended December 31, 2013

	<b>Scranton Lackawanna Health And Welfare Authority</b>	<b>Lackawanna County Library System</b>	<b>Lackawanna County Redevelopment Authority</b>	<b>Lackawanna County River Basin Sewer Authority</b>	<b>County Of Lackawanna Transit System Authority</b>	<b>Multi-Purpose Stadium Authority Of Lackawanna County</b>	<b>Lackawanna County Performing Arts Center Authority</b>	<b>Totals</b>
<b>Revenues</b>								
Charges for services	\$ 33,369	\$ 220,000	\$ -	\$ 8,349,118	\$ 3,716,096	\$ -	\$ 629,123	\$ 12,947,706
Real estate taxes	-	4,074,445	-	-	-	-	-	4,074,445
Tax incremental financing	-	-	492,205	-	-	-	-	492,205
Rental income	9,051,126	-	-	-	-	695,778	-	9,746,904
Interest income	66,831	-	66	116,578	3,642	11,406	123	198,646
Operating grants and contributions	-	951,615	-	-	8,521,686	-	-	9,473,301
Capital grants and contributions	-	-	-	-	6,587,014	21,526,519	-	28,113,533
Other	515	22,944	15,162	672,742	6,427	1,410	-	719,200
<b>Total revenues</b>	<b>9,151,841</b>	<b>5,269,004</b>	<b>507,433</b>	<b>9,138,438</b>	<b>18,834,865</b>	<b>22,235,113</b>	<b>629,246</b>	<b>65,765,940</b>
<b>Expenses</b>								
Public works and enterprises	-	5,195,943	-	7,812,267	12,383,576	-	-	25,391,786
Culture and recreation	-	-	-	-	-	-	-	-
Operating expenses	-	-	-	-	-	9,521,264	22,336	9,543,600
Community and economic development	-	-	158,223	-	-	-	-	158,223
Debt service	9,151,841	-	43,826	302,022	-	644,147	292,798	10,434,634
Unallocated depreciation and amortization	-	-	-	-	-	918,367	355,696	1,274,063
<b>Total expenses</b>	<b>9,151,841</b>	<b>5,195,943</b>	<b>202,049</b>	<b>8,114,289</b>	<b>12,383,576</b>	<b>11,083,778</b>	<b>670,830</b>	<b>46,802,306</b>
<b>Change In Net Position</b>	<b>-</b>	<b>73,061</b>	<b>305,384</b>	<b>1,024,149</b>	<b>6,451,289</b>	<b>11,151,335</b>	<b>(41,584)</b>	<b>18,963,634</b>
<b>Net Position (Deficit) Beginning</b>								
As previously reported	9	1,806,566	(731,213)	40,672,265	7,375,868	23,810,555	1,587,386	74,521,436
Restatement	-	-	-	-	-	(870,479)	-	(870,479)
As restated	9	1,806,566	(731,213)	40,672,265	7,375,868	22,940,076	1,587,386	73,650,957
<b>Net Position (Deficit), Ending</b>	<b>\$ 9</b>	<b>\$ 1,879,627</b>	<b>\$ (425,829)</b>	<b>\$ 41,696,414</b>	<b>\$ 13,827,157</b>	<b>\$ 34,091,411</b>	<b>\$ 1,545,802</b>	<b>\$ 92,614,591</b>

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

## 1. Summary of Significant Accounting Policies

The major accounting principles and practices followed by the County of Lackawanna, Pennsylvania (the "County") are summarized below.

### Nature of Operations

The County is located in northeastern Pennsylvania and was established under the laws of the Commonwealth of Pennsylvania in 1879. The County operates under a Home Rule charter form of government. An elected three member Board of Commissioners governs the County, which provides general governmental services, public safety, health and welfare, recreation and community enrichment programs.

### Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units, discussed in Note 2, are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2013

## Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Health and Human Services Fund accounts for the provision of specified social services such as daycare, aging, medical transportation, healthcare, human services and drug and alcohol treatment and prevention.

The Debt Service Fund accounts for resources accumulated for the purpose of funding long-term debt obligations. The County records all debt service tax revenue directly in its debt service fund.

The Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation or construction of major capital assets.

The County reports the following nonmajor governmental funds:

Liquid Fuels, Community Development, 911, Domestic Relations, Hotel Rental Tax, and other miscellaneous activities.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

The County reports the following proprietary fund:

The Internal Service Fund provides services to other funds of the County on a cost-reimbursement basis. This fund is used to account for the County's self-insurance program for workers' compensation. Operating revenues consist of charges for insurance services. Operating expenses consist of payments made for workers' compensation claims and administrative costs. All other revenues and expenses are reported as nonoperating.

The County reports the following fiduciary funds:

The County's Fiduciary Funds account for the Pension Trust Fund and the Agency Fund. The Pension Trust Fund accounts for assets held by the County as trustee for individuals currently or previously employed by the County. The Agency Fund accounts for assets held by the County in a custodial or agent function.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the County's Human Services Fund and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

## **Budgetary Data**

In accordance with provisions of Section 1782 of Public Law No. 323, as amended, of the Commonwealth of Pennsylvania, commonly known as the County Code, the County prepares and adopts a budget on or before December 31 for the following fiscal year. Budgets are prepared on a modified accrual basis and are adopted for the General and Debt Service Funds.

In general, the County maintains budgetary control by major expenditure classification (salaries, fringe benefits, materials and supplies, purchased services and capital outlay) within departments. The County Commissioners must approve budgetary transfers and/or additional appropriations not spent in prior years. Expenditures cannot legally exceed the appropriations at the budgetary control levels described above. Appropriations that are not expended lapse at the end of the fiscal year.

## **New Accounting Standards**

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus* for the year ended December 31, 2013. GASB No. 61 addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The County implemented the accounting and reporting requirement of GASB 61 as of January 1, 2013. This implementation did not materially change the County's accounting and reporting policies.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2013

The County adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, ("GASB No. 65") for the year ended December 31, 2013. GASB No. 65 provides financial reporting guidance related to the impact on the financial statements of deferred outflows of resources and deferred inflows of resources, such as changes in the use of the term deferred in financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflow of resources and deferred outflow of resources definitions. The County implemented the accounting and reporting requirements of GASB No. 65 as of January 1, 2013. The effect of this adoption decreased the County's governmental activities net position at January 1, 2013 by \$9,899,718.

The County adopted GASB Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*, for the year ended December 31, 2013. GASB No. 66 provides technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. The County adopted the accounting and reporting requirements of GASB No. 66 as of January 1, 2013. The effect of this adoption did not materially change the County's accounting and reporting policies.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and certificates of deposit with an original maturity of three months or less, which are carried at cost.

### **Investments**

Investments in all funds of the primary government are stated at fair value based on quoted market prices. Investments held by the Internal Service Fund are restricted to paying claims of the workers' compensation program.

### **Assets Held for Capital Projects**

Assets held for capital projects represents unspent proceeds of various bond issues.

### **Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

The County's assets are capitalized at historical cost or estimated historical cost. County policy has set the capitalization threshold for reporting general capital assets at \$5,000. Donations or contributions of capital assets are recorded at fair market value when received.

All capital assets, except land and construction-in-progress, are depreciated. Land is never depreciated. Construction-in-progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets as follows:

	<u>Governmental Activities</u>
Infrastructure and airport	20-50 years
Land improvements	20 years
Buildings and improvements	25 years
Furniture and equipment	5-20 years
Equipment under capital lease	10 years

## Escrow Liabilities

Escrow liabilities represent amounts that are held by the County primarily for items such as undistributed fees, fines and costs held by row offices, bail collections, proceeds from sheriff's sales, child support collections, various taxes, fees and licenses and taxes to be distributed to municipalities and school districts.

## Compensated Absences

The County's collective bargaining agreements specify the sick and vacation leave policies for employees covered by those agreements. Generally, covered employees are paid for unused sick days, up to maximum amounts established by the contracts, upon separation from the County. Nonunion County employees are paid for unused sick leave, up to a maximum of 100 days, at retirement. Vacation days generally do not accumulate; however, certain employees may accumulate vacation days.

## Derivative Financial Instrument

The County has entered into a variable-to-variable basis swap, which is considered an investment derivative instrument, related to its General Obligation Bonds, Series B of 2010 (Note 7). The fair value of the derivative is recorded as a liability within the Statement of Net Position.

## Self-Insurance

The County is self-insured for workers' compensation claims. The County maintains a stop loss policy limiting its liability for any one specific claim. The County accounts for its self-insurance activity in its Internal Service Fund, which charges other funds based on the estimated annual cost.

## Governmental Fund Balance Classifications/Policies and Procedures

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Such non-spendable form items would include inventory and prepaid expenses.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2013

- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action of the County's "highest level of decision-making authority" which do not lapse at year-end.
  - The Commissioners are its highest level of decision-making authority, and
  - The Commissioners commit funds through an ordinance.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County, but not through formal action of the Commissioners.
  - The Commissioners authorized the County's CFO to assign funds to specific purposes.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

### **Interfund Activity**

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements.

### **Restricted Net Position/Fund Balances**

When both restricted and unrestricted resources are available for use, the County's policy is to use restricted resources first, and then unrestricted resources as needed.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the County's policy is generally to apply the expenditure to committed resources, then to assigned resources, and then to unassigned resources.

### **Allocation of Indirect Expenses**

The County does not allocate any indirect expenses including depreciation.

### **Use of Estimates**

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

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2013

## 2. Reporting Entity

In accordance with the guidance contained in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*, and by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the County has evaluated all related entities (authorities, commissions, and affiliates) for the possible inclusion in the financial reporting entity.

The component units discussed below are included in the County's reporting entity because of the significance of financial and operational relationships with the County.

### Blended Component Unit

Some component units, despite being legally separate from the County, are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government in the Health and Human Service Fund. The component unit reported in this way is:

- The Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA") is responsible for developing and implementing a plan for the prevention and treatment of drug and alcohol abuse in Lackawanna County. The LCCDAA receives funding primarily from the Commonwealth of Pennsylvania and is blended as part of the Health and Human Services Fund, a major special revenue fund of the County.

### Discretely Presented Component Units

Component units that are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government to emphasize that they are legally separate from the County. The following component units are discretely presented in the accompanying financial statements:

- The Scranton Lackawanna Health and Welfare Authority ("SLHWA") acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System ("LCLS") oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.
- The Lackawanna County Redevelopment Authority ("LCRA") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the LCRA.
- The Lackawanna County River Basin Sewer Authority ("LCRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LCRBSA. The County has also guaranteed the long-term debt of the LCRBSA.

## **County of Lackawanna, Pennsylvania**

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### Notes to Financial Statements

December 31, 2013

- The County of Lackawanna Transit System Authority (“COLTS”) operates the County’s mass transit system. The County Commissioners appoint the governing board of COLTS. COLTS has a fiscal year end of June 30, as such, the amounts included herein for COLTS are as of and for the year ended June 30, 2013.
- The Multi-Purpose Stadium Authority of Lackawanna County (“MPSA”) operates the Lackawanna County Multi-Purpose Stadium. The County Commissioners appoint the governing board of the MPSA. The MPSA owes the County \$7,300,000. In addition, the County has guaranteed the debt of MPSA and secured the debt with a portion of future hotel tax collections.
- The Lackawanna County Performing Arts Center Authority (“LCPACA”) operates a performing arts amphitheatre. The County Commissioners appoint the governing board of the LCPACA. The County has also guaranteed the long-term debt of the LCPACA and agreed to fund any deficits of the LCPACA. The long-term debt outstanding at December 31, 2013 was approximately \$4,000,000.

### **Related Organizations**

Organizations for which the County is not financially accountable even though the County appoints a voting majority of the organization’s governing board are:

- Lackawanna County Housing Authority
- Lackawanna County Industrial Development Authority
- Lackawanna Heritage Valley Authority
- Northeast Pennsylvania Convention and Visitors Bureau
- Lackawanna County Solid Waste Management Authority

### **Joint Ventures**

The County is a participant with other counties in joint ventures that provide services to the constituents of all the participants. The County is a participant in the following joint ventures:

- Wilkes-Barre/Scranton International Airport (“Airport”). A joint venture with the County of Luzerne, the Lackawanna County Commissioners and two members of the Luzerne County Council and the Luzerne County Manager serving as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2013, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately \$5,358,000 in its capital assets at December 31, 2013.
- Lackawanna-Susquehanna Behavioral Health/Intellectual Disabilities Early Intervention. A joint venture with the County of Susquehanna, the commissioners of each County appoint members of the governing board. The County has no equity interest in this joint venture but does provide an annual match of funds. The Commonwealth of Pennsylvania primarily funds the joint venture.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

All separately published audit reports of the component units and joint ventures are available for public inspection in the Office of the County Commissioners.

### 3. Deposits with Financial Institutions and Investments

Under the County Administrative Code, the County is authorized to invest its funds in the following:

- United States Treasury bills.
- Short-term obligations of the United States government or its agencies or instrumentalities.
- Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation ("FDIC") or other like insurer.
- Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth of Pennsylvania, or any agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania which are insured by the FDIC or other like insurer. For any amounts in excess of the insured maximum, such deposits must be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities.
- Commercial paper and prime commercial paper meeting certain requirements.

In addition, the County Administrative Code provides that a pension or retirement fund may make any investment authorized by 20 PA C.S. 73 (relating to fiduciary investments).

### Deposits with Financial Institutions

#### Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a policy for custodial credit risk. At December 31, 2013, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$29,459,893 compared to the carrying amount of \$28,556,807. The difference is caused by items in-transit and outstanding checks. \$24,569,124 of the County's deposits were exposed to custodial credit risk and were uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended. In addition, \$586,072 was exposed to custodial credit risk and was uninsured and not otherwise collateralized.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## Investments

As of December 31, 2013, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

<u>Governmental Activities</u>	<u>Maturities</u>	<u>Fair Value</u>
Internal Service Fund:		
U.S government agency	3-19 years	\$ 1,060,465
Money market funds	N/A	30,335
		<u>                    </u>
Total		<u>\$ 1,090,800</u>
<u>Pension Trust Fund</u>	<u>Maturities</u>	<u>Fair Value</u>
Common stock	N/A	\$ 85,020,551
Corporate & tax-exempt bonds	1-30 years	20,090,441
U.S. government obligations	6-30 years	20,345,618
Mutual funds	N/A	14,043,835
Certificates of deposit	N/A	10,208,281
Money market	N/A	6,669,184
		<u>                    </u>
Total		<u>\$ 156,377,910</u>

## Interest Rate Risk

The County or the Pension Trust Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## Credit Risk and Concentration of Credit Risk

The County has limits on the amount that may be invested in any one issuer. At December 31, 2013, no one issuer totaled more than five percent of the Pension Trust Fund's net assets. The Pension Trust Fund's investment policy requires all bonds to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County's investments in debt securities of the Governmental funds had the following credit risk at December 31, 2013:

<u>Investment</u>	<u>S&amp;P Rating</u>	<u>%</u>
U.S government obligations	AA+	<u>100.00 %</u>

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2013:

Investment	S&P Rating	%
U.S government obligations	AA+	51.39 %
Corporate bonds	AAA	10.68
Corporate bonds	AA	4.51
Corporate bonds	AA+	1.29
Corporate bonds	AA-	3.99
Corporate bonds	A	10.53
Corporate bonds	A+	7.76
Corporate bonds	A-	8.12
Corporate bonds	BBB+	1.73
Total		100.00 %

## 4. Real Estate Taxes

The total tax on real estate in 2013 was 57.420 mills (\$0.057420 per \$1,000 of assessed valuation). Of this amount, 53.60 mills were levied for general and debt service purposes, 2.820 mills were levied for library services in the County and 1 mill was levied for culture and education fund purposes. Amounts collected for library services are remitted to the Lackawanna County Library System.

Real estate taxes are collected by the Single Tax Office and remitted to the County. The County's Tax Assessor Office is responsible for establishing assessed values.

The schedule for real estate taxed levied each year is as follows:

February 1	Levy date
February 1 - February 28	2.5% discount period
March 1 - April 30	2.0% discount period
May 1 - June 30	Face payment period
July 1 - December 31	10% penalty period
January 1	Lien date

Delinquent real estate taxes receivable at December 31, 2013 were approximately \$18,500,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$10,300,000.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## 5. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2013, was as follows:

	January 1, 2013	Acquisitions	Disposals	Transfer	December 31, 2013
Capital assets not being depreciated:					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	6,163,371	4,728,163	-	(425,099)	10,466,435
Total capital assets, not being depreciated	9,696,606	4,728,163	-	(425,099)	13,999,670
Capital assets being depreciated:					
Buildings and improvements	114,483,615	909,720	-	204,183	115,597,518
Machinery and equipment	37,780,765	630,314	(504,066)	-	37,907,013
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	36,917,413	882,669	-	220,916	38,020,998
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	199,332,685	2,422,703	(504,066)	425,099	201,676,421
Less accumulated depreciation for:					
Buildings and improvements	(28,256,983)	(2,839,460)	-	-	(31,096,443)
Machinery and equipment	(32,877,795)	(1,473,198)	308,904	-	(34,042,089)
Equipment under capital lease	(687,420)	(94,888)	-	-	(782,308)
Infrastructure	(28,907,409)	(512,780)	-	-	(29,420,189)
Investment in Airport	(3,208,075)	(161,226)	-	-	(3,369,301)
Total accumulated depreciation	(93,937,682)	(5,081,552)	308,904	-	(98,710,330)
Net capital assets being depreciated	105,395,003	(2,658,849)	(195,162)	425,099	102,966,091
Governmental activities capital assets, net	<u>\$ 115,091,609</u>	<u>\$ 2,069,314</u>	<u>\$ (195,162)</u>	<u>\$ -</u>	<u>\$ 116,965,761</u>

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements December 31, 2013

### 6. Long-Term Obligations

Description	January 1, 2013	Additions	Payments	December 31, 2013	Current Portion
General Obligation Bonds, Series A of 2004	\$ 3,180,000	\$ -	\$ 610,000	\$ 2,570,000	\$ 1,255,000
Taxable General Obligation Bonds, Series C of 2004	2,555,000	-	5,000	2,550,000	5,000
General Obligation Bonds, Series D of 2004	4,720,000	-	2,310,000	2,410,000	2,410,000
General Obligation Bonds, Series A of 2007	14,225,000	-	-	14,225,000	-
General Obligation Bonds, Series B of 2007	17,935,000	-	50,000	17,885,000	55,000
General Obligation Notes, Series A of 2008	44,515,000	-	5,000	44,510,000	5,000
General Obligation Notes, Series D of 2008	13,253,652	-	780,000	12,473,652	405,042
General Obligation Bonds, Series E of 2008	15,355,000	-	930,000	14,425,000	950,000
Taxable General Obligation Bonds, Series A of 2009	7,335,000	-	10,000	7,325,000	15,000
General Obligation Notes, Series B of 2009	26,475,000	-	5,000	26,470,000	5,000
Taxable General Obligation Notes, Series A of 2010	2,910,000	-	443,000	2,467,000	371,000
General Obligation Bonds, Series B of 2010	58,440,000	-	50,000	58,390,000	50,000
General Obligation Notes, Series of 2011	19,321,000	-	1,763,000	17,558,000	1,849,000
General Obligation Notes, Series A of 2012	5,969,787	-	138,000	5,831,787	51,000
General Obligation Notes, Series B of 2012	2,485,116	-	261,000	2,224,116	275,000
General Obligation Notes, Series A of 2013	-	2,834,108	121,991	2,712,117	251,795
Total	238,674,555	2,834,108	7,481,991	234,026,672	7,952,837
Bond premiums, discounts and deferred refunding	(5,238,841)	-	357,607	(4,881,234)	-
	<u>\$ 233,435,714</u>	<u>\$ 2,834,108</u>	<u>\$ 7,124,384</u>	<u>\$ 229,145,438</u>	<u>\$ 7,952,837</u>

### Governmental Activities

During 2004, the County issued \$10,110,000 of general obligation bonds (Series A of 2004) to currently refund a 1994 bond issue, finance various capital projects, and fund a deposit to the Debt Service Fund. These bonds are due in varying annual installments plus interest at rates ranging from 4.25% to 5.00% per annum, with final maturity scheduled for 2015.

During 2004, the County issued \$4,210,000 of taxable general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments to begin in 2008 plus interest at rates ranging from 5.10% to 5.35%, with final maturity scheduled for 2019.

During 2004, the County issued \$20,145,000 of general obligation bonds (Series D of 2004) to finance unfunded debt of the County, including certain outstanding obligations of the current and prior years. These bonds are due at varying quarterly installments plus interest at a variable rate (4.24% at December 31, 2013), with final maturity scheduled for 2014.

## County of Lackawanna, Pennsylvania

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### Notes to Financial Statements

December 31, 2013

During 2007, the County issued \$21,090,000 of general obligation bonds (Series A of 2007) to finance various capital projects. The bonds are due in varying annual installments plus interest at rates ranging from 3.65% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009, consisting of the principal payments due in 2009 through 2017.

During 2007, the County issued \$33,735,000 of general obligation bonds (Series B of 2007) to currently refund all or a portion of the Series A of 2004, Series B of 2004, and Series B of 1999 bond issues. The bonds are due in varying annual installments plus interest at rates ranging from 3.75% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009.

During 2008, the County issued \$44,540,000 (Series A of 2008), \$44,540,000 (Series B of 2008) and \$6,745,000 (Series C of 2008) of general obligation notes. The proceeds of the Series A, B and C notes were used to advance refund a portion of the County's Series A of 2002 general obligation bonds, currently refund the outstanding Series B of 2005 and Series A of 2006 general obligation bonds and to finance various capital projects and to pay the costs of issuance. The bonds are due in varying annual installments plus interest at variable rates (0.69% at December 31, 2013 for Series A) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 general obligation bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction during 2008. Advance refunding of the 2008 C Bond was paid to the paying agent which defeased the bond in June 2009. The Series B bonds were advance refunded in October 2010. Advance funding was paid to the paying agent which defeased the Series B bonds in October 2010.

During 2008, the County issued \$13,858,652 (Series D of 2008) of zero coupon general obligation notes and \$17,960,000 (Series E of 2008) of general obligation bonds. The proceeds of the Series D notes and Series E bonds were used to advance refund a portion of the County's Series A of 1999 general obligation bonds and to finance various capital projects. The Series D of 2008 notes are due in varying installments that yield to maturity at rates ranging from 5.60% to 7.50% with final maturity scheduled for July 2023. Principal due in 2013 on the Series D Bonds is \$612,971. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 4.25% to 6.125% with final maturity scheduled for January 2022.

During 2009, the County issued \$7,375,000 (Series A of 2009) of taxable general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series C of 2008 general obligation bonds. The bonds are due in varying annual installments plus interest at rates ranging from 7.00% to 7.25% with final maturity scheduled for October 2029.

During 2009, the County issued \$26,495,000 (Series B of 2009) of general obligation notes. The proceeds of the notes were used to advance refund a portion of the County's Series A and B of 2007 bonds. The notes are due in varying annual installments plus interest at rates ranging from 5.65% to 6.00% with final maturity scheduled for September 2034.

## County of Lackawanna, Pennsylvania

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### Notes to Financial Statements

December 31, 2013

During 2010, the County issued \$3,319,000 (Series A of 2010) of taxable general obligation notes. The proceeds of the notes were used to currently refund the County's Series B of 1999 general obligation bonds and to pay the costs of issuance. The notes are due in varying annual installments plus interest at a rate of 4.94%, with final maturity scheduled for February 2019. Of the \$3,319,000 borrowing, \$2,499,000 related to funds that were loaned to the LCPACA, and \$820,000 related to County projects. The County is receiving periodic payments of principal and interest from LCPACA, amounting to \$247,704 in principal during 2013, on its share of this obligation. Principal due in 2014 on the County's share of this borrowing is \$91,674. The County also agreed to fund any operating expenses of the LCPACA if its revenues under a Concert Concession Agreement were insufficient. At December 31, 2013, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 14.

During 2010, the County issued \$58,540,000 (Series B of 2010) of general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series B of 2008 general obligation bonds and terminate the related interest rate swap agreement. The bonds are due in varying annual installments plus interest at rates ranging from 1.85% to 5.00%, with final maturity scheduled for September 2035. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 Series A & B general obligation bonds and paid approximately \$10,183,000 upon termination from the proceeds of its Series B of 2010 general obligation bonds.

Effective October 1, 2010, the County entered into a variable-to-variable swap agreement modifying the interest rate payments associated with the County's 2010 Series B General Obligation Bonds. The agreement terminates on September 1, 2035. The effect of the Agreement requires the County to pay a variable rate equal to the SIFMA Index plus 0.787% payable each March 1 and September 1 through final maturity. Pursuant to this agreement, the County receives a variable rate equal to 68% of the 3-month London Inter-Bank Offered Rate ("LIBOR") plus 0.15% payable to the County on each March 1 and September 1 through final maturity. The Swap Notional amount amortizes through termination as the 2010 B Bonds amortize.

During 2011, the County issued \$21,000,000 (Series of 2011) of general obligation notes to finance unfunded debt of the County, including certain outstanding obligations of current and prior years and to fund the costs and expenses of issuing the 2011 note. These notes are due in varying monthly installments plus interest at a fixed-rate of 4.75%, with final maturity scheduled for December 2021. If the Note is considered taxable at any time, it shall mature in installments of principal and interest at the maximum taxable rate of interest of 18%. The Note is subject to extraordinary mandatory redemption by the County prior to maturity to the extent that there are "available amounts" in the preceding fiscal year as determined by the County pursuant to the IRS regulations.

During 2012, the County issued \$6,085,000 (Series A of 2012) of general obligation notes. The proceeds of the notes were used to currently refund the County's outstanding Series A of 2002 general obligation bonds. The notes are due in varying installments of principal and interest at a fixed rate of 3.94% with final maturity scheduled for October 2020.

During 2012, the County issued \$2,726,000 (Series B of 2012) of general obligation notes. The proceeds of the notes were used to currently refund the County's outstanding Series B of 2002 general obligation bonds. The notes are due in varying installments of principal and interest at a fixed rate of 5.64% with final maturity scheduled for October 2020.

## County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

During 2013, the County issued \$2,834,108 (Series A of 2013) of general obligation notes to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed rate of 2.84% for three years and then adjusting to 70% of prime rate with a floor of 2.84% and a ceiling of 5.50% with final maturity scheduled for July 2023.

Interest paid on these bonds and notes during the year ended December 31, 2013 amounted to \$11,937,138, including swap related interest payments amounting to approximately \$321,000.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, exclusive of the effect of the interest rate swaps (Note 7), as of December 31, 2013. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 7,952,837	\$ 9,723,333	\$ 17,676,170
2015	7,615,017	10,049,269	17,664,286
2016	7,934,989	9,727,039	17,662,028
2017	8,130,596	9,545,411	17,676,007
2018	9,564,183	9,319,878	18,884,061
2019 - 2023	43,649,050	46,028,974	89,678,024
2024 - 2028	54,830,000	27,451,400	82,281,400
2029 - 2033	67,855,000	14,614,134	82,469,134
2034 - 2038	26,495,000	1,485,950	27,980,950
Total	<u>\$ 234,026,672</u>	<u>\$ 137,945,388</u>	<u>\$ 371,972,060</u>

### Defeased Debt

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities or securities collateralized by U.S. government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. At December 31, 2013, the amount of defeased bonds outstanding was \$29,200,000.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

At December 31, 2013, the following bonds outstanding had been defeased by the County:

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2013</u>
General Obligation Bonds, Series A of 1999	2022	\$ 9,155,000
General Obligation Bonds, Series A of 2007	2017	3,345,000
General Obligation bonds, Series B of 2007	2022	9,980,000
General Obligation Notes, Series C of 2008	2029	<u>6,720,000</u>
Total		<u>\$ 29,200,000</u>

## Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2013:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying installments plus interest at 4.35%, maturing 2014.	\$ 559,601
Term note, due in varying installments plus interest at 4.25%, maturing 2022.	<u>149,916</u>
Total Lackawanna County Redevelopment Authority	<u>709,517</u>
<u>Lackawanna River Basin Sewer Authority</u>	
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through August 2012) and matures in August 2032. Amortization of this loan commenced in May 2012.	1,172,260
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through September 2012) and matures in September 2032. Amortization of this loan commenced in May 2013.	24,332,169
Sewer Revenue Bonds, Series of 2009, due in varying installments with interest payable semiannually at rates ranging from 1.00% to 2.75%; maturing 2015.	<u>590,000</u>
Total Lackawanna River Basin Sewer Authority	<u>26,094,429</u>

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## Lackawanna County Performing Arts Center Authority

County General Obligation Bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.875% to 7.000%; final maturity scheduled for 2018. Reported net of unamortized discount of \$10,267.	\$ 1,845,000
County General Obligation Bonds, Series B of 2002, due in varying annual installments plus interest at rates ranging from 2.65% to 6.85%; final maturity scheduled for 2020.	<u>2,205,000</u>
Total Lackawanna County Performing Arts Center Authority	<u>4,050,000</u>

## Multi-Purpose Stadium Authority

Variable Rate Demand Hotel Room Rental Tax Revenue Bonds, Series of 2013 due in varying installments in July of each year commencing July 2014. Interest payments are due monthly at a variable interest rate equivalent to a Weekly Rate determined for each Weekly Rate Period as calculated by PNC Capital Markets. The rate at December 31, 2013 was .07%. Final maturity scheduled for July 2026.	<u>18,970,000</u>
Total Discretely Presented Component Units	<u>\$ 49,823,946</u>

Scheduled principal maturities of long-term debt of the discretely presented component units are summarized as follows:

Years ending December 31:

2014	\$ 3,660,226
2015	2,692,932
2016	2,625,462
2017	2,694,660
2018	2,715,235
2019 - 2023	12,127,934
2024 - 2028	12,309,509
2029 - 2033	7,932,988
2034 - 2038	<u>3,065,000</u>
Total	49,823,946
Less unamortized discount	<u>10,267</u>
Total	<u>\$ 49,813,679</u>

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

## **Scranton Lackawanna Health and Welfare Authority**

The Scranton Lackawanna Health and Welfare Authority (“SLHWA”) has entered into lease, sublease and guarantee agreements for facilities being financed through the issuance of bonds by SLHWA. SLHWA leases the facilities, limited to the project, from the various entities for a fixed rental amount equal to the proceeds from the sale of the bonds. SLHWA subleases the facilities back to the various entities for periodic lease payments in amounts sufficient to pay principal and interest on the bonds when due, the redemption premium, if any, and to pay all expenses and fees of SLHWA and trustee, if applicable, as related to the bonds. Accordingly, future lease payments due over the remaining terms of the leases (net of the portion applicable to interest) have been reflected as a receivable in SLHWA’s balance sheet. The facilities revert to the lessee upon full and final payment of the bonds, and expiration of the lease. Accordingly, the cost of the facilities acquired with proceeds of bond issues has not been capitalized in the financial statements of SLHWA. SLHWA has executed a trust indenture with a trustee bar of SLHWA’s rights, title and interest in the facilities under the various bond agreements.

SLHWA, as a result of the assignments, has no ongoing obligation for the debt but has chosen to include the debt and the related future rental receivable in its financial statements. As of December 31, 2013, there was one general obligation bond issue outstanding and nine notes and mortgages outstanding with an aggregate balance of \$48,778,379.

## **7. Service Concession Arrangement - Lackawanna County Performing Arts Center Authority**

In January 2012, LCPACA entered into a long-term Service Concession Arrangement with a private company (the “Operator”) for the primary purpose of leveraging LCPACA’s assets to generate cash resources. Pursuant to the agreement, the Operator will operate and collect revenue from the Amphitheatre for a 10-year term ending December 31, 2021, with a cancelation clause allowing the Operator to terminate the agreement with written notice on December 31, 2016. LCPACA will receive \$550,000 annually over the term of the agreement, which has been recorded within the statement of net position as deferred inflows of resources - deferred concession arrangement. In addition, the Operator was required to remit 50% of the net revenues received for “naming rights” sponsorship of the Amphitheatre per a contract which expired December 31, 2013.

## **8. Derivative Financial Instrument - Basis Swap**

### **Objective of the Basis Swap**

The County entered into a variable-to-fixed interest rate swap transaction in connection with the issuance of its General Obligation Notes, Series A & B of 2008 (the “2008 Notes”). Subsequent to issuance, the County amended the 2008 Swap with the purpose of hedging the 2008 Notes. Included with the issuance of the County’s General Obligation Bonds, Series B of 2010, is an amendment to the 2008 Swap to provide a variable-to-variable basis swap, to cash settle a portion of the 2008 Swap and relate the 2010 Swap to the 2010 Series B Bonds with the purpose of managing the interest rate payments on the 2010 Bonds.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2013

### Terms

On September 14, 2010, the County entered into a variable-to-variable basis swap transaction with PNC Bank ("PNC") in the initial and currently outstanding notional amount of \$58,540,000. Under the terms of the swap contract the County receives a variable interest rate equal to 68% of the 3-Month London Interbank Offered Rate ("LIBOR") plus a fixed spread of .15% and pays a variable rate to PNC equal to 100% of the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index plus a fixed spread of .787%. Payments are made semi-annually on the March and September 1 and rates reset weekly. The basis swap terminates and the 2010 Series B Bonds mature on September 1, 2035.

### Fair Value

At December 31, 2013, the swap had a negative fair value of \$9,801,987, which is reported as investment derivative - pay variable / receive variable basis swap in the governmental activities section of the statement of net assets. Changes in the fair value are reported as investment income in the governmental activities section of the statement of activities.

### Credit Risk

As of December 31, 2013, the County was not exposed to credit risk because the 2010 Swap had a negative fair value. However, should interest rates change and the fair value of the 2010 Swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

The basis swap transaction exposes the County to credit (default) risk. Should the County's long-term credit rating be downgraded in the future, this gives the counterparty (PNC Bank) an additional termination event if the County does not post the amount of collateral needed to secure its obligations under the terms of the Swap. In the event that the County cannot post the required amount of collateral, the counterparty will have the ability to obligate the County to terminate the Swap at the then current market rate.

### Interest Rate Risk

The basis swap transaction exposes the County to interest rate risk. If the percentage of the 3-Month LIBOR rate plus a fixed spread received by the County is lower than the variable rate the County is paying the counterparty (PNC Bank) under the terms of the swap, the County would be obligated to make a periodic net swap payment to the counterparty - based on market conditions, the net swap payment due by the County to the counterparty could be significant.

### Basis Risk

The County is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At December 31, 2013, the associated debt used the LIBOR index and the counterparty's payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## Termination Risk

The basis swap transaction exposes the County to termination risk. If the County decides to terminate the Swap or a termination event occurs and the County is obligated to terminate the Swap and the market conditions are such that the County is "out of the money." In an "out of the money" scenario the County would have to pay a termination payment to the counterparty (PNC Bank) to terminate the Swap. Depending on market movements the County could potentially owe the counterparty a significant termination payment.

In light of recent debt rating declines of the County, a risk of a Swap Agreement Termination exists related to the 2010 Swap Agreement. Potential termination events included in the 2010 Swap agreement include default or a decrease in credit rating of either the County or the counterparty. In March 2012, the County and the Counterparty reached a forbearance agreement that indicated the County's credit rating withdrawal would not constitute an early termination event.

## 9. Capital Lease Payable

The County entered into a capital lease for energy conservation equipment in 2005. The lease agreement requires 120 payments of \$15,885, including interest, through July 1, 2015.

The following is a summary of changes in capital lease payable:

Balance, January 1, 2013	\$	463,025
Decrease		<u>(172,651)</u>
Balance, December 31, 2013		290,374
Less current portion		<u>180,892</u>
Long-term portion of capital lease payable	\$	<u><u>109,482</u></u>

The County makes its capital lease payments from the General Fund.

The following is a summary of future minimum lease payments required under the capital leases along with the present value of the net minimum lease payments as of December 31, 2013:

Years ending December 31:

2014	\$	190,617
2015		<u>111,193</u>
Total minimum lease payments		301,810
Less amounts representing interest		<u>11,436</u>
Present value of net minimum lease payments	\$	<u><u>290,374</u></u>

Total interest paid on this capital lease in 2013 was \$17,966.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## 10. Compensated Absences

The changes in the County's compensated absences in 2013 are summarized as follows:

Balance, January 1, 2013	\$ 2,901,193
Increase	1,740,400
Decrease	<u>(1,720,736)</u>
Balance, December 31, 2013	2,920,857
Less current portion	<u>236,660</u>
Long-term compensated absences	<u>\$ 2,684,197</u>

The County pays its compensated absences from the General Fund.

## 11. Pension Plans

### Plan Description

The Lackawanna County Retirement Fund (the "Plan") is a single-employer defined benefit pension plan that covers all full-time employees of the County. The Plan provides retirement, disability and death benefits to its members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Lackawanna County Employees' Retirement Board. The Plan is covered under the Commonwealth of Pennsylvania's Act 96 of 1971, as amended, commonly referred to as the County Pension law. The County Pension law provides for the creation, maintenance and operation of this plan. A copy of the Plan's financial statements may be obtained from the County Commissioner's office.

Membership of the Plan consisted of the following at December 31, 2013, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	638
Terminated plan members entitled to but not yet receiving benefits	231
Active plan members	<u>1,041</u>
Total	<u>1,910</u>
Number of participating employers	<u>1</u>

## County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

Prior to December 31, 1987, as a condition of employment, each employee of Lackawanna County was required to contribute 7% of their salary to the Plan. As of January 1, 1988, each new employee is required to contribute eight percent (8%) of their salary to the Plan. Members in the Plan prior to January 1, 1988 may continue to contribute seven percent (7%) or elect the option to contribute eight percent (8%). The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contribution requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings of the retirement plan.

The County's annual pension cost and net pension obligation for the current year were calculated as follows:

Annual required contribution	\$ 4,139,516
Interest on net pension asset	1,609,806
Adjustment to annual required contribution	<u>(2,604,369)</u>
Annual pension cost	3,144,953
Contributions made	<u>500,000</u>
Increase in net pension obligation	(2,644,953)
Net pension obligation, beginning of year	<u>(21,464,074)</u>
Net pension obligation, end of year	<u><u>\$ (24,109,027)</u></u>

The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Prior to January 1, 2005, the aggregate actuarial cost method was used to determine costs, at which time the County changed to the Entry Age normal method.

Historical trend information for the Plan is presented below:

	<b>Annual Pension Cost (APC)</b>	<b>County Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/11	\$ 3,248,265	\$ -	0.0 %	\$ 18,739,940
12/31/12	3,224,134	500,000	15.5	21,464,074
12/31/13	3,144,953	500,000	15.9	24,109,027

Information regarding the Plan can be obtained from the County.

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2013

### 12. Fund Balance Classifications

The County presents its governmental fund balances by level of constraint in the aggregate on its balance sheet - governmental funds. The individual specific purposes of each constraint are presented below:

	<u>General Fund</u>	<u>Health and Human Services Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
Non-spendable for:						
Inventory	\$ 34,457	\$ -	\$ -	\$ -	\$ -	\$ 34,457
Prepaid expenses	<u>217,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,820</u>
Total non-spendable	<u>\$ 252,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252,277</u>
Restricted for:						
Grant programs	\$ -	\$ 861,717	\$ -	\$ -	\$ 2,499,240	\$ 3,360,957
Debt service	-	-	5,937,784	-	-	5,937,784
Capital projects	-	-	-	4,415,703	-	4,415,703
Total restricted	<u>\$ -</u>	<u>\$ 861,717</u>	<u>\$ 5,937,784</u>	<u>\$ 4,415,703</u>	<u>\$ 2,499,240</u>	<u>\$ 13,714,444</u>
Assigned for:						
Program purposes	<u>\$ 1,107,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,476</u>	<u>\$ 1,678,013</u>

### 13. Deficit Fund Balances

The individual non-major funds that have net deficit balances at December 31, 2013 are the Domestic Relations Fund with a deficit of \$122,441, the Landfill Trust Fund with a deficit of \$18,117, the Clerks Automation Fund with a deficit of \$18,290 and the Help America Vote Fund with a deficit of \$3,838. Such deficits resulted from the County not funding 100% of the operating deficits of these activities in the current or past years and will be funded in 2014 operating subsidy payments.

The Internal Service Fund has a net deficit of \$299,590 at December 31, 2013. This deficit results from the County electing only to fund the minimum asset reserve required by the Commonwealth of Pennsylvania for self-insured entities.

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of \$425,829 at December 31, 2013. The deficit resulted from the financing of the Ash Street and Taylor Commons infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Redevelopment Authority anticipates the deficit to be substantially eliminated by the year 2014 when the notes mature.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

## 14. Self Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance.

The County has elected to self-insure its workers' compensation risk. The County established an Internal Service Fund to account for all the transactions associated with its self-insurance. The Internal Service Fund charges the County's other funds an amount equal to its estimated annual cost. The County is responsible for payment of the first \$500,000 per claim, after which point, the County's excess claim policy (commercial insurance) covers any additional losses.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The County uses an actuary to determine the amount of claim liabilities at year-end.

Changes in the balance of claims liabilities in 2013 are as follows:

Balance, January 1, 2013	\$ 1,522,677
Claims incurred	691,990
Claims paid	<u>(649,619)</u>
Balance, December 31, 2013	<u>\$ 1,565,048</u>

The County has recorded an estimated liability for known claims, based on estimates of the ultimate cost of reported claims (including future claims adjustment expenses) as well as claims that have been incurred but not reported, using amounts as determined by an independent actuary. Adjustments to these claim liabilities are charged or credited to expense in the periods in which they are made.

## 15. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2013 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 5,440,517	\$ 1,803,461
Health and Human Services Funds	644,214	60,876
Debt Service Fund	3,210,425	163,592
Capital Projects Fund	567,127	4,205,113
Non-Major Funds	625,002	972,186
Agency Fund	-	<u>3,282,057</u>
Total	<u>\$ 10,487,285</u>	<u>\$ 10,487,285</u>

## County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2013

The amounts due to the General Fund are generally for payroll and other operating costs initially funded by the General Fund on behalf of the other funds.

The Capital Projects Fund owes the Debt Service Fund \$3,000,000 related to a Commonwealth of Pennsylvania Redevelopment Assistance Capital Project grant used to finance capital construction that were initially paid from debt service proceeds.

Interfund transfers in 2013 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
General Fund	\$ 20,590	\$ 20,591
Health & Human Services Fund	40	-
Capital Projects Funds	283,411	1,598,882
Non-Major Funds	526,655	2,400,973
Internal Service Fund	-	880,107
Total General Fund	<u>830,696</u>	<u>4,900,553</u>
Health & Human Services Fund, General Fund	<u>-</u>	<u>40</u>
Capital Projects Funds:		
General Fund	1,598,882	283,411
Debt Service Fund	2,827,254	-
Total Capital Projects Fund	<u>4,426,136</u>	<u>283,411</u>
Non-Major Funds:		
General Fund	2,400,973	526,655
Non-Major Funds	20	20
Total Non-Major Fund	<u>2,400,993</u>	<u>526,675</u>
Internal Service Fund, General Fund	<u>880,108</u>	<u>-</u>
Debt Service Fund, Capital Projects Fund	<u>-</u>	<u>2,827,254</u>
Total Debt Service Fund	<u>-</u>	<u>2,827,254</u>
Totals	<u>\$ 8,537,933</u>	<u>\$ 8,537,933</u>

The General Fund transferred funds to the Capital Projects Fund (\$1,598,882) to fund future capital projects, to the Non-Major Funds (\$2,400,973) for operating subsidies of Liquid Fuels, Domestic Relations and Emergency 9-1-1 funds and to the Internal Service Fund (\$880,107) to fund workers compensation claims incurred by the County during the year.

In addition, the County transferred \$2,827,254 from its Debt Service Fund to its Capital Projects Fund related to the net proceeds received on the issuance of the County's General Obligation Notes, Series A of 2013.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2013

## Due From/To Component Units

The County has advanced \$7,300,000 to the MPSA primarily to fund MPSA's capital projects. This advance is expected to be received once MPSA receives its Commonwealth Redevelopment Assistance Capital Program Grants.

The County has advanced \$1,083,766 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility (\$150,000) and to fund debt service payments (\$933,766). In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of \$5,093,710 within its governmental activities statement of net position.

## 16. Contingencies

The County participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The County is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs. The County is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

The County is involved, from time to time, in various legal actions. In the opinion of the County, these matters either are adequately covered by insurance or will not have a material effect on the County's financial statements.

In August 2010, Luzerne County, Pennsylvania filed suit against the MPSA alleging that they would be entitled to one-half of any franchise sale proceeds if the MPSA's baseball franchise were to be sold. In the opinion of management, and after consultation with legal counsel, the MPSA is entitled to the entire amount of the sales proceeds. The matter is currently in litigation and its outcome cannot be ascertained. The sale of the franchise to SWB Yankees LLC was completed in April 2012 and the MPSA set aside one-half of the sale proceeds until final disposition of this matter.

The County is currently involved as the plaintiff in a lawsuit pertaining to the collapse of the roof at the Toyota Pavilion, which was part of the Lackawanna County Performing Arts Center Authority's capital assets. The damages being litigated amount to approximately \$1,600,000. If the County is successful, the County anticipates using part of the award to reduce amounts owed to the County by the Authority and to help defray the costs incurred to reconstruct the roof. At the present time it is not possible to determine the outcome of the lawsuit.

## 17. Concentration of Labor

At December 31, 2013, approximately 66% of the County's employees are represented by unions, whose existing labor agreements expire on December 31, 2014 and December 31, 2015.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

## 18. Postemployment Benefits

In July 2004, the GASB issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes accounting and financial reporting standards for state and local employers that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). As defined in Statement No. 45, OPEB are (1) postemployment healthcare benefits and (2) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan.

The County adopted this accounting standard during 2008 and has determined through a review of its plans that it does not provide significant postemployment benefits as defined in Statement No. 45 to retirees or their spouses and dependents.

## 19. Effect of Adoption of GASB Statement No. 65

The County adopted GASB Statement No. 65 for its calendar year ended December 31, 2013, which requires that the effects be applied to the earliest period presented. The changes within the County's December 31, 2013 governmental activities assets and net position are as follows:

Net position (deficit), as previously reported, at January 1, 2013	\$ (121,141,492)
Deferred bond issuance costs	<u>(9,899,718)</u>
Restated net position at January 1, 2013	<u>\$ (131,041,210)</u>

## 20. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide postemployment benefits other than pensions. The County is required to adopt Statement No. 67 for its calendar year 2014 financial statements.

## County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. To the extent applicable, the County is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the County is required to adopt Statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more-likely-than-not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The County is required to adopt Statement No. 70 for its calendar year 2014 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. To the extent applicable, the County is required to adopt Statement No. 71 for its calendar year 2014 financial statements.

County management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the County's financial reporting process.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2013

## 21. Restatement

During 2013, the County restated its previously issued December 31, 2012 financial statements to include certain grant financed bridge improvements from prior years which were not previously recorded due to oversight. The below information depicts the nature and effect of this restatement and its effect on assets and net position.

### Governmental Activities

The changes within the County's governmental activity assets and net position are as follows:

Total assets, as previously reported, at December 31, 2012	\$ 171,923,220
Restatement for capital asset adjustments	<u>3,797,139</u>
Restated total assets at December 31, 2012	<u>\$ 175,720,359</u>
Total net position, as previously reported, at December 31, 2012	\$ (121,141,492)
Restatement for capital asset adjustment	<u>3,797,139</u>
Restated net position at December 31, 2012 (January 1, 2013 net position)	<u>\$ (117,344,353)</u>

**County of Lackawanna, Pennsylvania**

Statement of Revenues, Expenditures and Changes in Fund Balances -  
 General and Debt Service Funds Budget And Actual - Unaudited  
 Year Ended December 31, 2013

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 55,433,235	\$ 56,852,624	\$ 1,419,389	\$ 20,510,505	19,592,107	\$ (918,398)
Payments in-lieu of taxes	238,277	255,848	17,571	-	-	-
Grants	16,590,509	16,754,048	163,539	-	-	-
Charges for services	18,487,450	19,522,678	1,035,228	-	-	-
Interest and rent	29,035	12,586	(16,449)	-	7,034	7,034
Court costs, fines and forfeitures	16,800	14,270	(2,530)	-	-	-
Contributions and other	214,667	314,555	99,888	-	-	-
<b>Total revenues</b>	<b>91,009,973</b>	<b>93,726,609</b>	<b>2,716,636</b>	<b>20,510,505</b>	<b>19,599,141</b>	<b>(911,364)</b>
<b>Expenditures</b>						
General government - administrative	18,086,199	18,492,133	(405,934)	-	25,746	(25,746)
General government - judicial	18,309,705	17,850,384	459,321	-	-	-
Public safety	29,479,828	28,654,905	824,923	-	-	-
Public works	121,818	56,790	65,028	-	-	-
Human services	15,167,588	14,376,467	791,121	-	-	-
Culture and recreation	2,693,037	2,457,283	235,754	-	-	-
Conservation and development	375,232	382,405	(7,173)	-	-	-
Miscellaneous expense	860,410	801,846	58,564	-	-	-
Debt service:						
Principal	-	-	-	6,527,971	6,530,487	(2,516)
Interest	225,000	109,083	115,917	13,953,639	11,828,055	2,125,584
<b>Total expenditures</b>	<b>85,318,817</b>	<b>83,181,296</b>	<b>2,137,521</b>	<b>20,481,610</b>	<b>18,384,288</b>	<b>2,097,322</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>5,691,156</b>	<b>10,545,313</b>	<b>4,854,157</b>	<b>28,895</b>	<b>1,214,853</b>	<b>1,185,958</b>
<b>Other Financing Sources (Uses)</b>						
Capital grant to Multi-Purpose Stadium Authority	-	(526,603)	(526,603)	-	-	-
Note proceeds	-	-	-	-	2,834,108	2,834,108
Note issue costs	-	-	-	-	(6,854)	(6,854)
Transfers in	-	830,696	830,696	-	-	-
Transfers out	(5,316,381)	(4,900,553)	415,828	-	(2,827,254)	(2,827,254)
<b>Total other financing sources (uses), net</b>	<b>(5,316,381)</b>	<b>(4,596,460)</b>	<b>719,921</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources</b>	<b>374,775</b>	<b>5,948,853</b>	<b>5,574,078</b>	<b>28,895</b>	<b>1,214,853</b>	<b>1,185,958</b>
<b>Fund Balance, Beginning</b>	<b>77,559</b>	<b>1,461,152</b>	<b>1,383,593</b>	<b>181,283</b>	<b>4,722,931</b>	<b>4,541,648</b>
<b>Fund Balance, Ending</b>	<b>\$ 452,334</b>	<b>\$ 7,410,005</b>	<b>\$ 6,957,671</b>	<b>\$ 210,178</b>	<b>\$ 5,937,784</b>	<b>\$ 5,727,606</b>

## County of Lackawanna, Pennsylvania

### Required Supplemental Information - Schedule of Funding Progress

Unaudited

December 31, 2013

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL As A Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2006	\$ 104,954,131	\$ 114,543,257	\$ 9,589,126	91.6%	\$ 45,474,796	21.1%
January 1, 2007	118,608,487	124,198,042	5,589,555	95.5%	48,978,779	11.4%
January 1, 2008	133,074,285	135,787,677	2,713,392	98.0%	53,566,168	5.1%
January 1, 2009	126,590,597	148,389,777	21,799,180	85.3%	54,182,910	40.2%
January 1, 2010	124,908,886	159,480,512	34,571,626	78.3%	55,494,144	62.3%
January 1, 2011	126,642,687	164,450,651	37,807,964	77.0%	44,109,822	85.7%
January 1, 2012	131,696,720	174,890,950	43,194,230	75.3%	45,110,910	95.8%
January 1, 2013	139,398,287	186,060,671	46,662,384	74.9%	44,842,335	104.1%

The actuarial assumptions used in the January 1, 2013 actuarial valuation, the most recent actuarial valuation included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.