

**County of Lackawanna,
Pennsylvania**

Financial Statements and
Supplementary Information

December 31, 2011



County of Lackawanna, Pennsylvania

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December 31, 2011

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Supplementary Information

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Independent Auditors' Report

Commissioners of Lackawanna County
Scranton, Pennsylvania

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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lackawanna County Area Agency on Aging and Lackawanna County Children and Youth Services (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 represent 70% and 92%, respectively of the assets and revenues of the Health and Human Services Fund and 1%, 1%, and 17%, respectively, of the assets, net assets, and revenues of the governmental activities. We did not audit the financial statements of the Pension Trust Fund which represents 97%, 100%, 100%, respectively of the assets, net assets and revenues of the Fiduciary Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lackawanna County Area Agency on Aging, Lackawanna County Children and Youth Services, Lackawanna County Commission on Drug and Alcohol Abuse and Pension Trust Fund, is based on the reports of the other auditors. Last, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the County adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. The County restated the beginning fund balances of its General and Non-major Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012 on our consideration of the County's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12, the budgetary comparison information on page 56 and the schedule of funding progress for the Pension Trust Fund on page 58 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 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.



Wilkes-Barre, Pennsylvania
September 26, 2012

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

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, 2011 compared to the year ended December 31, 2010. 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 \$123,708,789 at December 31, 2011.

General Fund revenues exceeded expenses in 2011. This decreased the General Fund deficit from \$11,367,209 at December 31, 2010 to a deficit of \$635,241 at December 31, 2011.

The County has been profoundly impacted by the global recession. County taxpayers are suffering from the Global economic stagnation. The County Commissioners, while recognizing that the County's operations are in a deficit position, had been, through December 31, 2010, committed to try to stabilize the County's finances without placing undue burden on County taxpayers.

In spite of the best efforts of the County Commissioners to attack the County deficits through responsible management of expenses, while continuing to provide essential services to the residents of Lackawanna County, in 2011 the County found itself in a serious financial predicament. Beginning in 2008, the Commissioners undertook a Governmental reorganization in order to more efficiently manage all of the diverse departments within Lackawanna County government. The reorganization resulted in a net decrease of approximately 35 positions and streamlined the lines of communication between County personnel and upper management. The Commissioners, between 2008 and 2010, reduced the workforce further and implemented cost savings strategies, like revising departmental purchasing practices and employee travel policies by purchasing a fleet of hybrid vehicles to be utilized by County employees rather than those employees using their personal vehicles. The County also undertook a comprehensive debt restructuring between 2008 and 2011, in an effort to pursue more conservative measures and reduce risk by limiting the County's SWAPs and variable interest rate exposure.

In March 2010, the County entered into an Asset Purchase Agreement with PA Lackawanna Holdings, LLC and Lackawanna Health Care Center, LLC, to sell the County owned nursing home. This transaction resulted in positive cash flow for the County in the amount of \$5,100,000, of which the County utilized \$3,100,000 to subsidize the County's General Fund in 2010 and utilized the remaining \$2,000,000 to subsidize the County's General Fund in 2011.

Despite the Commissioners' austerity measures, due to external pressures such as federal and state funding reductions, the County needed to borrow \$21,000,000 in December, 2011, in order to fund the County's unfunded debt. In addition, real estate taxes, after exhausting other potential revenue increases and expense reductions, were increased by 15.002 mils in the 2012 County budget.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. The statement of net assets reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in the net assets 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 13-14 of this report.

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 reported under the caption "Non-Major".

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General, Debt Service and Liquid Fuels Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 56.

The basic fund financial statements can be found on pages 15-21 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 22-23 of this report.

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 26-55 of this report.

Governmental Activities Condensed Statement of Net Assets December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 56,750,587	\$ 48,562,611
Capital assets, net	<u>113,730,303</u>	<u>115,387,837</u>
Total assets	<u>\$ 170,480,890</u>	<u>\$ 163,950,448</u>
Liabilities and Net Deficit		
Current liabilities	\$ 32,767,988	\$ 30,672,412
Long term and other liabilities	<u>261,421,691</u>	<u>237,850,670</u>
Total liabilities	<u>\$ 294,189,679</u>	<u>\$ 268,523,082</u>
Net Assets (Deficit)		
Invested in capital assets, net of related debt	\$ (72,677,412)	\$ (67,353,373)
Restricted	3,368,055	3,177,533
Unrestricted	<u>(54,399,432)</u>	<u>(40,396,794)</u>
Total net deficit	<u>\$ (123,708,789)</u>	<u>\$ (104,572,634)</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

Total Assets of the Lackawanna County primary government increased by \$6,530,442 from 2010 to 2011 from \$163,950,448 to \$170,480,890. This amounts to a 4.0% increase.

The County's Total Liabilities increased by \$25,666,597 in 2011. This was due primarily to an increase in long-term debt of \$23,571,021. This includes an increase in bonds and notes payable of \$21,000,000 relating to issuance of the County's Bank Note for unfunded debt.

Condensed Statement of Governmental Activities Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 24,924,519	\$ 33,864,962
Operating Grants and contributions	41,826,346	45,671,922
Capital grants and contributions	4,312,105	2,881,637
General Revenues:		
Tax levy for general purposes, net	54,514,506	54,157,984
Contributions and other	917,218	(4,409,914)
Total revenues	<u>126,494,694</u>	<u>132,166,591</u>
Expenses:		
General government – administrative	21,567,852	19,762,120
General government – judicial	22,902,117	21,867,109
Corrections	32,340,222	32,049,424
Public works and enterprises	2,549,890	3,384,638
Human services	41,955,418	43,954,470
Culture and recreation	4,714,443	5,106,238
Conservation and development	2,945,604	4,833,575
Depreciation	5,049,819	3,813,485
Interest-long term debt	11,605,484	11,429,876
Total expenses	<u>145,630,849</u>	<u>146,200,935</u>
Changes in net assets	(19,136,155)	(14,034,394)
Net deficit, beginning	(104,572,634)	(81,105,340)
Prior period adjustments	-	(9,432,900)
Net deficit, ending	<u>\$ (123,708,789)</u>	<u>\$ (104,572,634)</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
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Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2010.

	2011 Amount	2010 Amount	Increase (Decrease)	% Change	
Taxes	\$ 39,513,939	\$ 54,486,930	\$ (14,972,991)	(27.48)	%
Intergovernmental	16,931,089	20,310,313	(3,379,224)	(16.64)	
Charges for service	16,889,539	17,580,102	(690,563)	(3.92)	
Other	356,705	32,416	324,289	1,000.39	
Note proceeds	21,000,000	-	21,000,000	N/A	
Transfers in	2,271,298	6,100,000	(3,828,702)	200.78	
Total revenue	\$ 96,962,570	\$ 98,509,761	\$ (1,547,191)	(1.57)	%

Total revenue in the General Fund decreased by \$1,547,191 or approximately 2% from 2010 to 2011.

Tax revenue decreased by \$14,972,991 because in 2010 the tax revenue, in the general fund, included the amount of tax collected to fund debt service, and then the amount was transferred to the debt service fund, while in 2011, the tax collected to fund debt service was allocated directly to the debt service fund and there was no need to transfer funds from the general fund to the debt service fund to pay the debt service.

Intergovernmental revenues decreased by \$3,379,224 between 2010 and 2011 principally because of budgetary constraints on the State level. State reimbursements for Human Services were subjected to significant budget cuts, and some grant funds for both the Courts and the District Attorney's were not renewed for 2011.

Note proceeds consist of the County's General Obligation Notes, Series of 2011 in the amount of \$21,000,000 which were used to fund the County's unfunded debt.

Transfers-in decreased by \$3,828,702 from 2010 to 2011 because the County transferred \$2,000,000 of the remaining proceeds from the 2010 sale of the County nursing home (as opposed to \$3,100,000 during 2010). In addition, during 2010, the County incorporated a one-time transfer of \$3,000,000 in unexpended debt proceeds to reduce its debt service payments.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

General Fund (Major Fund)

The following represents a summary of General Fund expenditures, by function, along with changes from 2010.

	<u>2011 Amount</u>	<u>2010 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government – administrative	\$ 15,238,773	\$ 18,673,924	\$ (3,435,151)	(18.40)	%
General government – judicial	18,587,381	18,285,804	301,577	1.65	
Public safety – corrections	27,568,987	26,907,704	661,283	2.46	
Public works	134,480	132,250	2,230	1.69	
Health and human services	17,282,622	16,637,405	645,217	3.88	
Culture and recreation	2,678,142	2,543,064	135,078	5.31	
Community and economic development	575,103	613,361	(38,258)	(6.24)	
Miscellaneous	735,004	761,591	(26,587)	(3.49)	
Debt service	187,864	172,668	15,196	8.80	
Note issue costs	239,500	-	239,500	N/A	
Transfers	2,879,303	15,644,891	(12,765,588)	(81.60)	
Total expenses	<u>\$ 86,107,159</u>	<u>\$ 100,372,662</u>	<u>\$ (14,265,503)</u>	<u>(14.21)</u>	<u>%</u>

Total expenses in the General Fund decreased by \$14,265,503 from 2010 to 2011. Expenses within the general government – administrative function decreased by \$3,435,151 due to a decrease of \$1,921,728 in the County's pension obligation from 2010 to 2011, as well as a \$450,000 decrease in Workers Compensation expense for the same period.

Expenses within the general government – judicial function increased by \$301,577 principally due to increases in salaries stemming from various Collective Bargaining agreements and increases in employee health care costs.

Expenses within the public safety – corrections function increased by \$661,283 due to salary increases stemming from various Collective Bargaining agreements and increases in employee health care costs.

Expenses within the Health and Human Services function increased by \$645,217 primarily due to increases dictated by Collective Bargaining agreements and increases in employee health care costs.

As previously explained under the revenue analysis section, in 2011 the County changed the method by which the debt service fund is funded. Prior to 2011, taxes were received into the general fund and then transferred out to the debt service fund in order to fund the payment of debt service. Beginning in 2011, taxes are received directly into the debt service fund and therefore there is no need to transfer the funds from the general fund into the debt service fund. For that reason, the transfers out decreased by \$12,765,588 from 2010 to 2011.

County of Lackawanna, Pennsylvania

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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 \$5,500,423 and \$3,553,381 respectively. These decreases are the result of the County Nursing Home facility being sold in March of 2010.

The Health and Human Service Fund has a fund balance of \$11,713. This is a decrease of \$727,852 from the 2010 final ending fund balance of \$739,565.

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.

During 2011, the County petitioned County Court to allow a borrowing from a consortium of local banks in order to fund unfunded debt. The Court approved the County's petition and in December the County borrowed \$21,000,000. This new borrowing has a ten year repayment term at 4.75% interest. See footnote 6 for additional information regarding the County's outstanding debt.

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance decreased from \$13,803,050 at December 31, 2010 to \$5,905,298 at December 31, 2011. Proceeds from the sale of the County's Nursing Home were transferred into this fund during 2010. The County subsequently transferred \$3,100,000 of these proceeds to the General Fund to subsidize operations in 2010, and another \$2,000,000 to subsidize the general fund in 2011. In addition, a RACP grant in the amount of \$3,000,000 for the Courthouse construction, which was completed in 2009, was approved by the State during 2011 and transferred out to the Debt Service Fund for payment of debt service related to the Courthouse construction project.

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, which requires that the County maintain an irrevocable trust account for the payment of future benefits. The fund's total assets at December 31, 2011 were \$1,324,382.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of \$315,840 as of December 31, 2011. This is a decrease of \$144,778 in the fund deficit of \$460,618 reported at December 31, 2010.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2011

Pension Trust Fund

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced a decrease in net assets of \$155,641 during 2011 resulting in Plan net assets of \$130,788,597 at December 31, 2011. Plan net assets were at \$130,944,238 at December 31, 2010

Plan contributions by members amounted to \$3,705,573 and \$3,859,609 in 2011 and 2010, respectively. Benefits paid to retired members were \$5,898,640 and \$5,708,411 in 2011 and 2010, 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 \$4,543,405 in that role as of December 31, 2011.

Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2011 was as follows:

	January 1, 2011	Acquisitions	Disposals	Transfer	December 31, 2011
Non-depreciable capital assets:					
Land	\$ 3,533,235	\$ -	-	\$ -	\$ 3,533,235
Construction-in-progress	3,565,526	511,362	-	(2,888,287)	1,188,601
Total non-depreciable capital assets	7,098,761	511,362	-	(2,888,287)	4,721,836
Depreciable capital assets:					
Buildings and improvements	110,471,400	739,146	-	2,888,287	114,098,833
Machinery and equipment	35,723,048	1,507,578	(47,200)	-	37,183,426
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	35,781,411	752,773	(119,440)	-	36,414,744
Investment in Airport	8,727,567	-	-	-	8,727,567
Total depreciable capital assets	192,126,751	2,999,497	(166,640)	2,888,287	197,847,895
Less accumulated depreciation:					
Buildings and improvements	(22,678,350)	(2,766,772)	-	-	(25,445,122)
Machinery and equipment	(29,509,017)	(1,779,134)	45,656	-	(31,242,495)
Equipment under capital lease	(497,652)	(94,884)	-	-	(592,536)
Infrastructure	(28,267,033)	(247,803)	2,410	-	(28,512,426)
Investment in Airport	(2,885,623)	(161,226)	-	-	(3,046,849)
Total accumulated depreciation	(83,837,675)	(5,049,819)	48,066	-	(88,839,428)
Net depreciable capital assets	108,289,076	(2,050,322)	(118,574)	2,888,287	109,008,467
Total	\$ 115,387,837	\$ (1,538,960)	\$ (118,574)	\$ -	\$ 113,730,303

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
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At December 31, 2011, the County has committed \$1,188,601 to various ongoing construction projects. Total capital assets decreased from \$115,387,837 at December 31, 2010 to \$113,730,303 at December 31, 2011.

Long Term Debt

As of December 31, 2011, the County's net general obligation debt was \$240,221,204 net of related discount. This amount represents approximately 84% of the legal limit as calculated in 2011.

Economic Condition and Outlook

The County has continued to closely monitor its debt portfolio. In 2011 and 2012 the County is continuing to pursue possibilities to further limit variable rate exposure and its exposure to derivative instruments, and take advantage of a favorable interest rate environment.

The County administration continues to streamline County government including reducing its work force without cutting services to the taxpayers, innovative energy savings, technological innovations, restructuring purchasing policies, as well as, implementing new vehicle and travel policies.

The County, in April, 2012 completed negotiations regarding the sale of the baseball franchise owned by the Multi Purpose Stadium Authority of Lackawanna County as part of a larger project to renovate the Authority's Stadium and provide a long term tenant for the facility.

In December 2011, the County secured a \$21,000,000 unfunded debt borrowing. This amount will be used to pay the County's current liabilities and help stabilize the County's financial position.

In addition, the County's 2012 budget includes a 15 mil real estate tax increase. This increase will generate approximately \$19,300,000 in additional tax revenue for County operations.

The proceeds of this borrowing and the tax increase stabilize the County's finances and allows the County to continue to provide the services expected by its citizens.

The County Commissioners are continuing to review operations and encourage County department heads as well as other employees to be innovative in the performance of their jobs in order to further streamline both the county processes as well as those of component units to better serve the taxpayers while attempting to mitigate the financial burden placed on those taxpayers.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2011

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 Assets

December 31, 2011

	Governmental Activities	Component Units
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,628,387	\$ 13,991,403
Restricted cash	-	8,306,247
Investments	1,259,373	732,080
Restricted investments	-	2,356,166
Accounts receivable, net	2,113,043	114,709,517
Inventory	38,362	-
Due from agency fund	1,937,565	-
Due from other governments, net	11,261,319	17,807,777
Due from component units	6,664,480	-
Taxes receivable, net	8,003,944	312,292
Other assets	59,779	507,966
	<hr/>	<hr/>
Total current assets	41,966,252	158,723,448
Capital Assets, Net	113,730,303	83,318,783
Assets Held for Capital Projects	4,287,841	-
Other Noncurrent Assets	-	1,756,243
Bond issue costs	10,496,494	-
	<hr/>	<hr/>
Total assets	<u>\$ 170,480,890</u>	<u>\$ 243,798,474</u>
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable	\$ 12,141,639	\$ 1,568,097
Accrued expenses	4,500,139	743,318
Current portion:		
Net pension obligation	3,967,756	-
Bond and notes payable	7,059,538	1,947,693
Capital lease obligations	164,786	-
Compensated absences	260,772	283,638
Due to component units	907,249	-
Due to primary government	-	15,537,566
Deferred revenues	2,125,887	312,292
Escrow liability	-	17,901,271
Claims payable	1,640,222	-
Other liabilities	-	12,950
	<hr/>	<hr/>
Total current liabilities	32,767,988	38,306,825
Noncurrent Liabilities		
Bonds and notes payable, net	233,161,666	31,303,158
Capital lease obligation	463,025	-
Nonrecourse debt issues	-	113,670,854
Net pension obligation	14,772,184	-
Investment derivative - pay variable / receive variable basis swap	11,031,966	-
Compensated absences	1,992,850	1,017,361
	<hr/>	<hr/>
Total liabilities	294,189,679	184,298,198
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(72,677,412)	51,329,931
Restricted	3,368,055	9,529,114
Unrestricted	(54,399,432)	(1,358,769)
	<hr/>	<hr/>
Total net assets (deficit)	(123,708,789)	59,500,276
	<hr/>	<hr/>
Total liabilities and net assets (deficit)	<u>\$ 170,480,890</u>	<u>\$ 243,798,474</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement of Activities

Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Component Units
Primary Government						
Governmental activities:						
General government - administrative	\$ (21,567,852)	\$ 4,745,278	\$ 170,980	\$ 3,000,000	\$ (13,651,594)	
General government - judicial	(22,902,117)	7,477,166	1,749,475	-	(13,675,476)	
Public safety - corrections	(32,340,222)	9,157,448	226,088	-	(22,956,686)	
Public works and enterprises	(2,549,890)	77,188	951,293	-	(1,521,409)	
Health and human services	(41,955,418)	768,354	37,124,111	438,553	(3,624,400)	
Culture and recreation	(4,714,443)	2,513,489	-	-	(2,200,954)	
Community and economic development	(2,945,604)	185,596	1,604,399	873,552	(282,057)	
Unallocated depreciation	(5,049,819)	-	-	-	(5,049,819)	
Interest on long-term debt	(11,605,484)	-	-	-	(11,605,484)	
Total governmental activities	<u>\$ (145,630,849)</u>	<u>\$ 24,924,519</u>	<u>\$ 41,826,346</u>	<u>\$ 4,312,105</u>	<u>\$ (74,567,879)</u>	
Component Units						
Scranton Lackawanna Health and Welfare Authority	\$ (13,865,614)	\$ 56,976	\$ -	\$ -		\$ (13,808,638)
Lackawanna County Library System	(4,778,080)	250,000	963,788	-		(3,564,292)
Lackawanna County Redevelopment Authority	(263,949)	-	115,098	-		(148,851)
Lackawanna County River Basin Sewer Authority	(7,362,369)	7,271,948	-	23,100		(67,321)
County of Lackawanna Transit System Authority	(8,902,621)	954,173	6,909,513	3,287,520		2,248,585
Multi-Purpose Stadium Authority of Lackawanna County	(1,155,166)	125,000	-	-		(1,030,166)
Lackawanna County Performing Arts Center Authority	(686,634)	1,082,648	-	-		396,014
Total component units	<u>\$ (37,014,433)</u>	<u>\$ 9,740,745</u>	<u>\$ 7,988,399</u>	<u>\$ 3,310,620</u>		<u>\$ (15,974,669)</u>
General revenues						
Taxes levied for general purposes, net					\$ 54,514,506	\$ 4,130,610
Rental income					-	13,551,711
Interest revenue					92,494	496,797
Contributions and other revenue					191,030	1,222,790
Miscellaneous revenue					782,300	-
Change in fair value of investment derivative					(30,011)	-
Loss on sale of assets					(118,595)	-
Total general revenues					<u>55,431,724</u>	<u>19,401,908</u>
Change in net (deficit) assets					(19,136,155)	3,427,239
Net (deficit) assets, beginning					(104,572,634)	56,073,037
Net (deficit) assets, ending					<u>\$ (123,708,789)</u>	<u>\$ 59,500,276</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2011

	General Fund	Health And Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Assets						
Cash and cash equivalents	\$ 5,256,761	\$ 1,695,914	\$ 1,554,604	\$ 2,849,900	\$ 2,115,878	\$ 13,473,057
Investments	-	-	-	1,437,941	-	1,437,941
Inventory	38,362	-	-	-	-	38,362
Due from other funds	7,834,107	721,814	3,210,425	8,716,718	172,817	20,655,881
Due from component units	570,770	-	-	1,000,000	-	1,570,770
Other receivables	250,476	-	-	1,079,726	782,841	2,113,043
Due from other governments, net	5,624,848	847,293	275,175	3,150,000	1,364,003	11,261,319
Taxes receivable, net	8,003,944	-	-	-	-	8,003,944
Total	<u>\$ 27,579,268</u>	<u>\$ 3,265,021</u>	<u>\$ 5,040,204</u>	<u>\$ 18,234,285</u>	<u>\$ 4,435,539</u>	<u>\$ 58,554,317</u>
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 5,723,388	\$ 2,391,980	\$ 767,392	\$ 2,399,284	\$ 859,595	\$ 12,141,639
Accrued liabilities	1,469,783	64,644	-	-	128,052	1,662,479
Accrued pension	3,967,756	-	-	-	-	3,967,756
Due to other funds	9,333,357	671,989	-	7,928,511	784,459	18,718,316
Due to component units	907,249	-	-	-	-	907,249
Deferred revenue	6,812,976	124,695	-	2,001,192	-	8,938,863
Total liabilities	<u>28,214,509</u>	<u>3,253,308</u>	<u>767,392</u>	<u>12,328,987</u>	<u>1,772,106</u>	<u>46,336,302</u>
Fund Balances (Deficit)						
Non-spendable	38,362	-	-	-	-	38,362
Restricted	-	518,136	4,272,812	5,905,298	2,849,919	13,546,165
Unassigned	(673,603)	(506,423)	-	-	(186,486)	(1,366,512)
Total fund balances	<u>(635,241)</u>	<u>11,713</u>	<u>4,272,812</u>	<u>5,905,298</u>	<u>2,663,433</u>	<u>12,218,015</u>
Total	<u>\$ 27,579,268</u>	<u>\$ 3,265,021</u>	<u>\$ 5,040,204</u>	<u>\$ 18,234,285</u>	<u>\$ 4,435,539</u>	<u>\$ 58,554,317</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2011

Total Fund Balances - Governmental Funds		\$ 12,218,015
Amounts reported for governmental activities in the statement of net assets are different because:		
Net deficit of the Internal Service Fund are included in governmental activities since they primarily benefit the County's governmental activities.		(315,840)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		113,730,303
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.		6,812,976
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.		10,496,494
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.		5,093,710
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	\$ 240,221,204	
Net pension obligation	14,772,184	
Capital lease obligation	627,811	
Compensated absences	<u>2,253,622</u>	
		(257,874,821)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(11,031,966)
Accrued litigation claims (included in accrued expenses).		(190,000)
Accrued interest payable is included in the statement of net assets (included in accrued expenses).		<u>(2,647,660)</u>
Total Deficit - Governmental Activities		<u><u>\$ (123,708,789)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds
 Year Ended December 31, 2011

	Major Funds					Total Governmental Funds
	General Fund	Health And Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Revenues						
Taxes	\$ 39,299,566	\$ -	\$ 14,934,598	\$ -	\$ 1,278,241	\$ 55,512,405
Payments in lieu of taxes	214,373	-	-	-	-	214,373
Intergovernmental	16,931,089	22,166,544	-	4,019,405	4,461,114	47,578,152
Charges for service	16,889,539	158,048	-	-	5,689,765	22,737,352
Court costs, fines and forfeitures	29,592	-	-	-	114,032	143,624
Interest and rent	18,271	11,685	248	30,635	6,967	67,806
Contributions and other	308,842	-	-	108,835	313,754	731,431
Total revenues	73,691,272	22,336,277	14,934,846	4,158,875	11,863,873	126,985,143
Expenditures						
Current:						
General government- administrative	15,238,773	-	726,196	900,921	254,687	17,120,577
General government - judicial	18,587,381	-	-	-	2,986,562	21,573,943
Public safety and corrections	27,568,987	-	-	-	4,951,823	32,520,810
Public works and enterprises	134,480	-	-	-	1,393,555	1,528,035
Health and human services	17,282,622	23,064,129	-	-	329,622	40,676,373
Culture and recreation	2,678,142	-	-	-	2,058,796	4,736,938
Community and economic development	575,103	-	-	-	2,104,911	2,680,014
Miscellaneous expenses	735,004	-	-	-	3,206	738,210
Debt service:						
Principal	-	-	4,739,710	-	-	4,739,710
Interest	187,864	-	9,529,596	-	-	9,717,460
Capital outlay	-	-	-	6,846,747	-	6,846,747
Total expenditures	82,988,356	23,064,129	14,995,502	7,747,668	14,083,162	142,878,817
Excess (Deficiency) of Revenues Over Expenditures	(9,297,084)	(727,852)	(60,656)	(3,588,793)	(2,219,289)	(15,893,674)
Other Financing Sources (Uses)						
Note proceeds	21,000,000	-	-	-	-	21,000,000
Note issue costs	(239,500)	-	-	-	-	(239,500)
Transfers in	2,271,298	-	3,000,000	691,941	2,695,028	8,658,267
Transfers out	(2,879,303)	-	-	(5,000,900)	(966,397)	(8,846,600)
Total other financing sources (uses)	20,152,495	-	3,000,000	(4,308,959)	1,728,631	20,572,167
Net Change in Fund Balance	10,855,411	(727,852)	2,939,344	(7,897,752)	(490,658)	4,678,493
Fund Balances, Beginning						
As previously reported	(11,367,209)	739,565	1,333,468	13,803,050	3,030,648	7,539,522
Effect of adoption of GASB 54	(123,443)	-	-	-	123,443	-
As restated	(11,490,652)	739,565	1,333,468	13,803,050	3,154,091	7,539,522
Fund Balances, Ending	\$ (635,241)	\$ 11,713	\$ 4,272,812	\$ 5,905,298	\$ 2,663,433	\$ 12,218,015

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, 2011

Total Net Change In Fund Balances - Governmental Funds	\$ 4,678,493
Amounts reported for governmental activities in the statement of activities are different because:	
Net income of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.	144,778
Capital asset additions are reported as expenditures in the governmental funds.	3,510,859
Depreciation expense on capital assets is reported in the statement of activities.	(5,049,819)
Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities.	(118,575)
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.	(997,899)
Proceeds from the issuance of bonds payable are considered current financial resources and reported in the funds but not the statement of activities.	(21,000,000)
Repayment of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities.	4,896,989
Bond issue costs are reported as expenditures in the funds.	239,500
Amortization of premiums and deferred refunding charges.	(357,607)
Amortization of bond issue costs.	(684,478)
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.	(30,011)
Change in the net pension obligation.	(4,081,548)
Change in accrued interest on bonds payable.	(63,637)
Change in compensated absences.	(223,200)
Change in Net Assets of Governmental Activities	<u><u>\$ (19,136,155)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Net Deficit - Proprietary Fund

December 31, 2011

	<u>Internal Service Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 5,230
Investments	1,259,373
Prepaid expenses	<u>59,779</u>
Total	<u>\$ 1,324,382</u>
Liabilities and Net Deficit	
Current Liabilities	
Claims payable	\$ 1,640,222
Net Deficit, Unrestricted	<u>(315,840)</u>
Total	<u>\$ 1,324,382</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, 2011

	Internal Service Fund
Operating Revenues,	
Charges for services	<u>\$ 599,207</u>
Operating Expenses	
Workers' compensation claims	531,811
Administrative	<u>157,329</u>
Total operating expenses	<u>689,140</u>
Operating Loss	<u>(89,933)</u>
Nonoperating Revenues	
Interest income	46,378
Transfer in	188,476
Transfer out	<u>(143)</u>
Total nonoperating revenues	<u>234,711</u>
Net Income	144,778
Net Deficit, Beginning	<u>(460,618)</u>
Net Deficit, Ending	<u><u>\$ (315,840)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Cash Flows - Proprietary Fund

December 31, 2011

	Internal Service Fund
Cash Flows from Operating Activities	
Cash received from users	\$ 599,207
Cash payments for goods and services	(220,518)
Cash payments for insurance claims	<u>(535,876)</u>
Net cash used in operating activities	<u>(157,187)</u>
Cash Flows from Investing Activities	
Interest income	46,378
Purchase of investments	(77,497)
Transfers in	<u>188,333</u>
Net cash provided by investing activities	<u>157,214</u>
Net Increase in Cash	27
Cash, Beginning	<u>5,203</u>
Cash, Ending	<u><u>\$ 5,230</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (89,933)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase or decrease in:	
Due from other funds	143
Accounts payable	(63,332)
Claims payable	<u>(4,065)</u>
Net cash used in operating activities	<u><u>\$ (157,187)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Fiduciary Net Assets

December 31, 2011

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 566,070	\$ 4,543,405	\$ 5,109,475
Accrued interest	794,976	-	794,976
Investments, at fair value:			
Federated money market funds	2,221,446	-	2,221,446
U.S. government securities	28,570,699	-	28,570,699
Tax exempt bonds	1,588,161	-	1,588,161
Corporate bonds	18,064,828	-	18,064,828
Common stocks	68,370,482	-	68,370,482
Mutual funds	10,614,753	-	10,614,753
 Total investments	 129,430,369	 -	 129,430,369
 Total	 \$ 130,791,415	 \$ 4,543,405	 \$ 135,334,820
Liabilities and Net Assets			
Liabilities			
Accrued fees	\$ 2,818	\$ -	\$ 2,818
Escrow liabilities	-	2,605,840	2,605,840
Due to other funds	-	1,937,565	1,937,565
	2,818	4,543,405	4,546,223
Net Assets			
Held in trust for pension benefits	130,788,597	-	130,788,597
 Total	 \$ 130,791,415	 \$ 4,543,405	 \$ 135,334,820

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Changes in Fiduciary Net Assets

Year Ended December 31, 2011

	Pension Trust Fund
Additions,	
Contributions,	
Plan members	\$ 3,705,573
Investment Income	
Net appreciation in fair value of investments	554,055
Interest	1,737,064
Dividends	1,433,135
Investment expense	(39,643)
	<u>3,684,611</u>
Net investment earnings	<u>3,684,611</u>
Total additions	<u>7,390,184</u>
Deductions	
Benefits paid	5,898,640
Participant contributions refunded	882,165
Death benefits paid	366,902
Administrative expenses	398,118
	<u>7,545,825</u>
Total deductions	<u>7,545,825</u>
Decrease in Net Assets	(155,641)
Net Assets, Beginning	<u>130,944,238</u>
Net Assets, Ending	<u><u>\$ 130,788,597</u></u>

County of Lackawanna, Pennsylvania

Combining Balance Sheet - Discretely Presented Component Units
December 31, 2011

	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
Current Assets								
Cash and cash equivalents	\$ -	\$ 37,051	\$ 96,672	\$ 9,240,958	\$ 289,356	\$ 4,173,236	\$ 154,130	\$ 13,991,403
Restricted cash	-	-	-	173,638	8,132,423	-	186	8,306,247
Investments	76,476	-	-	-	655,604	-	-	732,080
Restricted investments	1,317,457	-	-	1,038,709	-	-	-	2,356,166
Due from other governments	16,508,654	-	-	-	1,035,972	263,151	-	17,807,777
Other receivables	113,670,854	84,318	-	886,075	68,270	-	-	114,709,517
Taxes receivable, net	-	312,292	-	-	-	-	-	312,292
Other current assets	-	390,000	-	51,524	63,229	3,213	-	507,966
Total current assets	131,573,441	823,661	96,672	11,390,904	10,244,854	4,439,600	154,316	158,723,448
Capital Assets Not Being Depreciated	-	50,000	-	-	541,356	-	-	591,356
Capital Assets, Net	-	933,525	-	48,368,797	6,660,369	19,524,101	7,240,635	82,727,427
Other Assets	14	-	-	572,827	107,009	1,076,393	-	1,756,243
Total	<u>\$ 131,573,455</u>	<u>\$ 1,807,186</u>	<u>\$ 96,672</u>	<u>\$ 60,332,528</u>	<u>\$ 17,553,588</u>	<u>\$ 25,040,094</u>	<u>\$ 7,394,951</u>	<u>\$ 243,798,474</u>
Liabilities								
Current liabilities:								
Accounts payable	\$ -	\$ 32,586	\$ -	\$ 389,431	\$ 469,482	\$ 660,437	\$ 16,161	\$ 1,568,097
Accrued expenses	1,316	-	-	-	579,230	36,697	126,075	743,318
Current portion of long-term debt	-	-	284,683	1,058,010	-	150,000	455,000	1,947,693
Current portion of compensated absences	-	-	-	164,806	118,832	-	-	283,638
Due to primary government	-	-	-	-	-	15,112,391	425,175	15,537,566
Deferred revenue	-	312,292	-	-	-	-	-	312,292
Escrow liability	17,901,271	-	-	-	-	-	-	17,901,271
Other liabilities	-	-	-	-	-	12,950	-	12,950
Total current liabilities	17,902,587	344,878	284,683	1,612,247	1,167,544	15,972,475	1,022,411	38,306,825
Long-term Debt	-	-	788,770	19,518,077	-	6,295,000	4,701,311	31,303,158
Compensated Absences	-	50,049	-	396,574	570,738	-	-	1,017,361
Nonrecourse Debt Issues	113,670,854	-	-	-	-	-	-	113,670,854
Total liabilities	<u>131,573,441</u>	<u>394,927</u>	<u>1,073,453</u>	<u>21,526,898</u>	<u>1,738,282</u>	<u>22,267,475</u>	<u>5,723,722</u>	<u>184,298,198</u>
Net Assets								
Invested in capital assets, net of related debt	-	983,525	-	27,792,710	7,201,725	13,267,647	2,084,324	51,329,931
Restricted	-	491,700	-	1,212,347	7,824,881	-	186	9,529,114
Unrestricted	14	(62,966)	(976,781)	9,800,573	788,700	(10,495,028)	(413,281)	(1,358,769)
Total net assets	14	1,412,259	(976,781)	38,805,630	15,815,306	2,772,619	1,671,229	59,500,276
Total	<u>\$ 131,573,455</u>	<u>\$ 1,807,186</u>	<u>\$ 96,672</u>	<u>\$ 60,332,528</u>	<u>\$ 17,553,588</u>	<u>\$ 25,040,094</u>	<u>\$ 7,394,951</u>	<u>\$ 243,798,474</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Assets - Discretely Presented Component Units
 Year Ended December 31, 2011

	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
Revenues								
Charges for services	\$ 56,976	\$ 250,000	\$ -	\$ 7,271,948	\$ 954,173	\$ 125,000	\$ 1,082,648	\$ 9,740,745
Real estate taxes	-	3,587,217	-	-	-	-	-	3,587,217
Tax incremental financing	-	-	543,393	-	-	-	-	543,393
Rental income	13,551,711	-	-	-	-	-	-	13,551,711
Interest income	206,927	156	69	197,435	89,525	2,088	597	496,797
Operating grants and contributions	-	963,788	115,098	-	6,909,513	-	-	7,988,399
Capital grants and contributions	-	-	-	23,100	3,287,520	-	-	3,310,620
Other	50,000	36,387	210,580	707,013	101,184	117,626	-	1,222,790
Total revenues	13,865,614	4,837,548	869,140	8,199,496	11,341,915	244,714	1,083,245	40,441,672
Expenses								
Public works and enterprises	-	4,778,080	-	7,289,768	8,902,621	-	-	20,970,469
Culture and recreation	-	-	-	-	-	-	422,343	422,343
Operating expenses	-	-	-	-	-	216,243	-	216,243
Community and economic development	-	-	199,021	-	-	-	-	199,021
Debt service	13,865,614	-	64,928	72,601	-	-	264,291	14,267,434
Unallocated depreciation and amortization	-	-	-	-	-	938,923	-	938,923
Total expenses	13,865,614	4,778,080	263,949	7,362,369	8,902,621	1,155,166	686,634	37,014,433
Change In Net Assets	-	59,468	605,191	837,127	2,439,294	(910,452)	396,611	3,427,239
Net Assets (Deficit) Beginning	14	1,352,791	(1,581,972)	37,968,503	13,376,012	3,683,071	1,274,618	56,073,037
Net Assets (Deficit), Ending	\$ 14	\$ 1,412,259	\$ (976,781)	\$ 38,805,630	\$ 15,815,306	\$ 2,772,619	\$ 1,671,229	\$ 59,500,276

See notes to financial statements

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2011

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 assets 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.

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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. Beginning in 2011, 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, Help America Vote and other miscellaneous activities.

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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 cash basis and are adopted for the General, Liquid Fuels, and Debt Service Funds. Accordingly, the Statement of Receipts, Disbursements, and Changes in Cash Balances – General Fund, Liquid Fuels, and Debt Services Funds - Budget and Actual is prepared on the modified cash basis.

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 Principle

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended December 31, 2011. GASB No. 54 provides for more clearly defined fund balance categories and classifications to make the nature and extent of the constraints placed on a government's fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability and better understand the purposes for which governments have chosen to use particular funds for financial reporting. The County implemented the recognition and disclosure requirements of GASB No. 54 as of January 1, 2011.

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In addition, the Retail Sales Fund, formerly reported as a special revenue fund, was reclassified to the General Fund, as it does not meet the criteria to be reported as a special revenue fund under the new accounting principle. The adoption resulted in a decrease in fund balance of approximately \$123,000 related to the General Fund with a corresponding increase in fund balance related to the aggregate remaining Non-Major Funds.

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.

Taxes Receivable

All property tax receivables are shown net of an allowance for uncollectible accounts. The property tax receivable allowance is calculated based on collection history and was approximately \$8,500,000 at December 31, 2011.

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.

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

	Governmental Activities
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

Bond Issue Costs

Costs incurred in connection with the issuance of certain general obligation bonds have been deferred in the statement of net assets and are being amortized over the life of the related obligation.

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 Assets.

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.

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Notes to Financial Statements

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Governmental Fund Balance Classifications/Policies and Procedures

In accordance with Governmental Accounting Standards Board (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.
- *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 Assets/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.

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Application of FASB Pronouncements

The County applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The County does not apply FASB pronouncements issued after November 30, 1989.

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.

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*, 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.

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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.
- 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, 2011.
- 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 \$15,112,391 of which the County has reserved \$13,232,046 of the balance. 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, 2011 was approximately \$5,200,000.

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December 31, 2011

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 County Commissioners of each county serve as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2011, the County did not provide operating or capital funding to the Airport. In addition, the County loaned the Airport \$900,000 for completion of the new terminal at the Airport in 2004, which was written off as uncollectible at December 31, 2011. The County has included a net investment in Airport of approximately \$2,840,000 in its capital assets at December 31, 2011.
- 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.

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2011

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, 2011, the bank balance of the County's deposits with financial statements, including cash equivalents, was \$18,675,489 compared to the carrying amount of \$18,587,762. The difference is caused by items in-transit and outstanding checks. \$15,580,933 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.

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Investments

As of December 31, 2011, 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 Funds</u>	<u>Maturities</u>	<u>Fair Value</u>
Capital Projects Fund:		
U.S. government agency	1-10 years	\$ 468,783
Money market funds	N/A	346,693
Certificates of deposit	1-5 years	<u>622,465</u>
Total		<u>1,437,941</u>
Internal Service Fund:		
U.S government agency	1-10 years	1,253,216
Money market funds	N/A	<u>6,157</u>
Total		<u>1,259,373</u>
Total governmental funds		<u>\$ 2,697,314</u>
<u>Pension Trust Fund</u>	<u>Maturities</u>	<u>Fair Value</u>
Common stock	N/A	\$ 68,370,482
U.S. government obligations	6-30 years	28,570,699
Mutual funds	N/A	10,614,753
Corporate bonds	1-30 years	19,652,989
Money market	N/A	<u>2,221,446</u>
Total		<u>\$ 129,430,369</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, 2011, 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.

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The County's investments in debt securities of the Governmental funds had the following credit risk at December 31, 2011:

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

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2011:

Investment	S&P Rating	%
U.S government obligations	AA+	62.54
Corporate bonds	Aaa	9.51
Corporate bonds	Aa2	4.46
Corporate bonds	Aa3	4.79
Corporate bonds	A1	4.46
Corporate bonds	A2	8.21
Corporate bonds	A3	2.50
Corporate bonds	Baa1	2.00
Corporate bonds	Baa2	<u>1.53</u>
Total		<u>100.00</u> %

4. Real Estate Taxes

The total tax on real estate in 2011 was 39.998 mills (\$0.039998 per \$1,000 of assessed valuation). Of this amount, 36.498 mills were levied for general and debt service purposes, 2.5 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, 2011 were approximately \$16,500,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$8,500,000.

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5. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2011, was as follows:

	January 1, 2011	Acquisitions	Disposals	Transfer	December 31, 2011
Capital assets not being depreciated					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	3,565,526	511,362	-	(2,888,287)	1,188,601
Total capital assets, not being depreciated	7,098,761	511,362	-	(2,888,287)	4,721,836
Capital assets being depreciated					
Buildings and improvements	110,471,400	739,146	-	2,888,287	114,098,833
Machinery and equipment	35,723,048	1,507,578	(47,200)	-	37,183,426
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	35,781,411	752,773	(119,440)	-	36,414,744
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	192,126,751	2,999,497	(166,640)	2,888,287	197,847,895
Less accumulated depreciation for					
Buildings and improvements	\$ (22,678,350)	\$ (2,766,772)	\$ -	\$ -	\$ (25,445,122)
Machinery and equipment	(29,509,017)	(1,779,134)	45,656	-	(31,242,495)
Equipment under capital lease	(497,652)	(94,884)	-	-	(592,536)
Infrastructure	(28,267,033)	(247,803)	2,410	-	(28,512,426)
Investment in Airport	(2,885,623)	(161,226)	-	-	(3,046,849)
Total accumulated depreciation	(83,837,675)	(5,049,819)	48,066	-	(88,839,428)
Net capital assets being depreciated	108,289,076	(2,050,322)	(118,574)	2,888,287	109,008,467
Governmental activities capital assets, net	\$ 115,387,837	\$ (1,538,960)	\$ (118,574)	\$ -	\$ 113,730,303

County of Lackawanna, Pennsylvania

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At December 31, 2011, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$1,188,000, which is included in construction in progress at December 31, 2011. The County is committed to additional costs of approximately \$1,173,000 related to these projects.

6. Long-Term Obligations

Description	January 1, 2011	Additions	Payments	December 31, 2011	Current Portion
General Obligation Bonds, Series A of 2002	\$ 6,020,000	\$ -	\$ -	\$ 6,020,000	\$ -
General Obligation Bonds, Series B of 2002	2,880,000	-	210,000	2,670,000	225,000
General Obligation Bonds, Series A of 2004	5,400,000	-	1,135,000	4,265,000	1,085,000
Taxable General Obligation Bonds, Series C of 2004	3,015,000	-	455,000	2,560,000	5,000
General Obligation Bonds, Series D of 2004	9,065,000	-	2,130,000	6,935,000	2,215,000
General Obligation Bonds, Series A of 2007	14,225,000	-	-	14,225,000	-
General Obligation Bonds, Series B of 2007	18,025,000	-	45,000	17,980,000	45,000
General Obligation Notes, Series A of 2008	44,525,000	-	5,000	44,520,000	5,000
General Obligation Notes, Series D of 2008	13,858,652	-	-	13,858,652	505,538
General Obligation Bonds, Series E of 2008	17,130,000	-	880,000	16,250,000	895,000
Taxable General Obligation Bonds, Series A of 2009	7,355,000	-	10,000	7,345,000	10,000
General Obligation Notes, Series B of 2009	26,485,000	-	5,000	26,480,000	5,000
Taxable General Obligation Notes, Series A of 2010	3,319,000	-	100,000	3,219,000	335,000
General Obligation Bonds, Series B of 2010	58,540,000	-	50,000	58,490,000	50,000
General Obligation Notes, Series of 2011	-	21,000,000	-	21,000,000	1,679,000
Total	229,842,652	21,000,000	5,025,000	245,817,652	7,059,538
Bond premiums, discounts and deferred refunding	(5,954,055)	-	357,607	(5,596,448)	-
	<u>\$ 223,888,597</u>	<u>\$ 21,000,000</u>	<u>\$ 4,667,393</u>	<u>\$ 240,221,204</u>	<u>\$ 7,059,538</u>

Governmental Activities

During 2002, the County issued \$19,540,000 of general obligation bonds (Series A of 2002) to refund a 1992 and a 1995 bond issue and finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 4.550% to 5.125%, with final maturity scheduled for 2020. These bonds were partially advance refunded in 2008. Advance funding was paid to the paying agent which defeased a portion of the bonds in August 2008, consisting of the principal payments due in 2008 through 2012 and 2014.

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During 2002, the County issued \$4,425,000 of general obligation bonds (Series B of 2002) on behalf of the LCPACA to finance construction of the facility. These bonds are due in varying annual installments plus interest at rates ranging from 2.65% to 6.85%, with final maturity scheduled for 2020. The LCPACA makes annual payments to the County for debt service. During 2011, LCPACA made principal payments of \$210,000 on this obligation.

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%, 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, 2011), with final maturity scheduled for 2014.

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, 2011 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.

County of Lackawanna, Pennsylvania

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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 5.14% to 7.50% with final maturity scheduled for July 2023. Principal due in 2012 on the Series D Bonds is \$505,538. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 3.75% 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.

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 \$75,290 in principal during 2011, on its share of this obligation. Principal due in 2012 on the County's share of this borrowing is \$82,779.

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 1.40% 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.

County of Lackawanna, Pennsylvania

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December 31, 2011

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.

Interest paid on these bonds and notes during the year ended December 31, 2011 amounted to \$9,529,596.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, net of the effect of the interest rate swaps (Note 7), as of December 31, 2011. 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>
2012	\$ 7,059,538	\$ 10,278,950	\$ 17,338,488
2013	7,308,972	10,044,483	17,353,455
2014	7,630,042	9,717,313	17,347,355
2015	7,283,893	10,051,310	17,335,203
2016	7,602,494	9,729,893	17,332,387
2017 – 2021	43,922,818	47,917,224	91,840,042
2022 – 2026	47,319,895	34,788,075	82,107,970
2027 – 2031	62,270,000	20,150,236	82,420,236
2032 – 2035	55,420,000	5,579,540	60,999,540
Total	<u>\$ 245,817,652</u>	<u>\$ 158,257,024</u>	<u>\$ 404,074,676</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, 2011, the amount of defeased bonds outstanding was \$39,260,000.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2011

At December 31, 2011 bonds outstanding are considered defeased as follows:

Series	Final Maturity	Outstanding Principal at December 31, 2011
General Obligation Bonds, Series A of 1999	2022	\$ 14,065,000
General Obligation Bonds, Series A of 2002	2014	1,490,000
General Obligation Bonds, Series A of 2007	2017	4,835,000
General Obligation bonds, Series B of 2007	2022	12,140,000
General Obligation Notes, Series C of 2008	2029	6,730,000
Total		<u>\$ 39,260,000</u>

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2011:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying semiannual installments plus interest at 6.5%, maturing 2013.	<u>\$ 1,073,453</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.	1,212,559
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. Reported net of unamortized bond premium and issuance costs of \$115,394.	17,878,528
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>1,485,000</u>
Total	<u>20,576,087</u>

County of Lackawanna, Pennsylvania

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Lackawanna County Performing Arts Center Authority

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 \$13,689.	\$ 2,486,311
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>2,670,000</u>
Total	<u>5,156,311</u>

Multi-Purpose Stadium Authority

Note payable due in varying installments in July of each year commencing July 2011. Interest payments are due semiannually in January and July commencing January 2011 at a variable interest rate equivalent to the 1 Month LIBOR plus 340 basis points at 65% plus 14 basis points. The rate at December 31, 2011 was 2.54%. In April and May 2012, the Authority approved resolutions to, among other items, issue notes for an amount not to exceed \$22,000,000 to provide funds to refund this Note.	<u>6,445,000</u>
	<u>\$ 33,250,851</u>

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

<u>Years ending December 31,</u>	<u>Amount</u>
2012	\$ 1,947,693
2013	2,820,592
2014	2,088,827
2015	1,716,670
2016	1,538,758
2017 – 2021	7,816,358
2022 – 2026	6,114,536
2027 – 2031	7,154,116
2032 – 2036	<u>2,182,384</u>
Total	33,379,934
Less unamortized discount	<u>(129,083)</u>
Total	<u>\$ 33,250,851</u>

County of Lackawanna, Pennsylvania

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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, 2011, there were five general obligation bond issues outstanding and nine notes and mortgages outstanding with an aggregate balance of \$113,670,854.

7. 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 2009 Swap to provide a variable-to-variable basis swap, to cash settle a portion of the 2009 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.

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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Fair Value

At December 31, 2011, the swap had a negative fair value of \$11,031,966, 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, 2011, 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, 2011, 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.

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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8. 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, 2011	\$ 785,090
Decrease	<u>(157,279)</u>
Balance, December 31, 2011	627,811
Less current portion	<u>164,786</u>
Long-term portion of capital lease payable	<u>\$ 463,025</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, 2011:

Years ending December 31	
2012	\$ 190,617
2013	190,617
2014	190,617
2015	<u>111,193</u>
Total minimum lease payments	683,044
Less amounts representing interest	<u>55,233</u>
Present value of net minimum lease payments	<u>\$ 627,811</u>

Total interest paid on this capital lease in 2011 was \$33,338.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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9. Compensated Absences

The changes in the County's compensated absences in 2011 are summarized as follows:

Balance, January 1, 2011	\$ 2,030,421
Increase	1,527,360
Decrease	<u>(1,304,159)</u>
Balance, December 31, 2011	2,253,622
Less current portion	<u>260,772</u>
Long-term compensated absences	<u>\$ 1,992,850</u>

The County pays its compensated absences from the General Fund.

10. 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, 2011, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	573
Terminated plan members entitled to but not yet receiving benefits	208
Active plan members	<u>1,096</u>
Total	<u>1,877</u>
Number of participating employers	<u>1</u>

County of Lackawanna, Pennsylvania

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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, contributions 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.

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

Annual required contribution	\$ 3,967,756
Interest on net pension asset	1,161,876
Adjustment to annual required contribution	<u>(1,881,367)</u>
Annual pension cost	3,248,265
Contributions made	<u>-</u>
Increase in net pension obligation	(3,248,265)
Net pension obligation, beginning of year	<u>(15,491,675)</u>
Net pension obligation, end of year	<u>\$ (18,739,940)</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.

Historical trend information for the Plan is presented below:

	<u>Annual Pension Cost (APC)</u>	<u>County Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/09	\$ 3,337,504	\$ -	0.0%	\$ 11,287,065
12/31/10	4,270,343	65,733	1.5%	15,491,675
12/31/11	3,248,265	-	0.0%	18,739,940

Information regarding the Plan can be obtained from the County.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2011

11. 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	<u>\$ 38,362</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,362</u>
Restricted for:						
Grant programs	-	518,136	-	-	2,849,919	3,368,055
Debt service	-	-	4,272,812	-	-	4,272,812
Capital projects	-	-	-	5,905,298	-	5,905,298
Total restricted	<u>\$ -</u>	<u>\$ 518,136</u>	<u>\$ 4,272,812</u>	<u>\$ 5,905,298</u>	<u>\$ 2,849,919</u>	<u>\$ 13,546,165</u>

12. Deficit Fund Balances

The General Fund has a net deficit of \$635,241 at December 31, 2011. The County is negotiating the sale of a baseball franchise, owned by the Multi Purpose Stadium Authority of Lackawanna County. When the franchise sale is finalized, the Authority intends to repay some of the monies which the County has advanced to the Authority over the years and the County intends to utilize these funds to subsidize general fund deficits. In addition, the County significantly increased general real estate taxes to provide funds to cover past operating losses in 2012.

The individual non-major funds that have net deficit balances at December 31, 2011 are the Community Development Fund \$184,834 and the 911 Fund \$858,409. The Community Development Fund is subsidized by the General Fund, and the deficit reflected at December 31, 2011 is reflecting only that the General Fund had not yet provided this fund with subsidies to offset this deficit.

The Internal Service Fund has a net deficit of \$315,840 at December 31, 2011. 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 \$976,781 at December 31, 2011. The deficit resulted from the financing of the PEI Power Park 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 2013 when the notes mature.

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13. 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. A stop loss policy limits the County's exposure to large claims to \$500,000.

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 2011 are as follows:

Balance, January 1, 2011	\$ 1,644,287
Claims incurred	531,811
Claims paid	<u>(535,876)</u>
Balance, December 31, 2011	<u>\$ 1,640,222</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.

14. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2011 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 7,834,107	\$ 9,333,357
Health and Human Services Funds	721,814	671,989
Debt Service Fund	3,210,425	-
Capital Projects Fund	8,716,718	7,928,511
Non-Major Funds	172,817	784,459
Internal Service Fund	-	-
Agency Fund	-	<u>1,937,565</u>
Total	<u>\$ 20,655,881</u>	<u>\$ 20,655,881</u>

County of Lackawanna, Pennsylvania

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The amounts due to the General Fund are generally for payroll and include a \$2,000,000 expected operating subsidy from the 2010 sale of the County Health Care Center. In addition, at December 31, 2011, the General Fund owed the Capital Projects Fund \$8,000,000 for operating subsidy funds borrowed from unexpended bond proceeds to meet operating cash flow during 2010. All of these items are expected to be repaid in 2012.

The Capital Projects Fund owed the Debt Service Fund \$3,000,000 for a Commonwealth of Pennsylvania Redevelopment Assistance Capital Project grant used to finance previously debt financed capital construction costs.

Interfund transfers in 2011 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Capital Projects Fund	\$ 2,000,900	\$ -
Non-Major Funds	270,255	2,690,827
Internal Service Fund	143	188,476
	<u>2,271,298</u>	<u>2,879,303</u>
Total General Fund		
Debt Service Fund,		
Capital Projects Fund	<u>3,000,000</u>	<u>-</u>
Capital Projects Fund:		
General Fund	-	2,000,900
Debt Service Fund	-	3,000,000
Non-Major Funds	691,941	-
	<u>691,941</u>	<u>5,000,900</u>
Total General Fund		
Non-Major Funds:		
General Fund	2,690,827	270,255
Capital Projects Fund	-	691,941
Non-Major Funds	4,201	4,201
	<u>2,695,028</u>	<u>966,397</u>
Total Non-Major Fund		
Proprietary Fund,		
Internal Service Fund	<u>188,476</u>	<u>143</u>
Totals	<u>\$ 8,846,743</u>	<u>\$ 8,846,743</u>

Transfers in to the Non-Major Funds were primarily used for operational costs of Liquid Fuels \$597,281, Domestic Relations \$543,196, Community Development Block Grant \$4,201, and Emergency 9-1-1 \$1,550,350. In addition, transfers out of the Non-Major Funds were used primarily to transfer the Hotel Rental Tax revenues of \$270,000 to cover debt service payments, and for operational costs subsidized by the Emergency 9-1-1 Fund \$691,941.

County of Lackawanna, Pennsylvania

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December 31, 2011

Transfers out of the Capital Projects Fund included \$2,000,000 in operating subsidy to the General Fund from the 2010 sale of the County's Health Care Center and a \$3,000,000 transfer related to unexpected grant revenue for prior capital projects that is intended to reduce future debt service.

Due From/To Component Units

At December 31, 2011, the County owed COLTS \$756,467 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2011, the amounts shown in the financial statements do not agree.

The County has advanced \$15,112,391 to the MPSA primarily to fund MPSA's debt service payments and capital projects. Based on the current financial condition of MPSA, the County does not believe MPSA has the current ability to repay this advance and, accordingly, has recorded an allowance for \$13,232,046.

The County has advanced \$425,175 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility (\$150,000) and to fund debt service payments (\$275,175). 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 assets.

15. 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.

The County is involved in a wrongful termination case involving 17 plaintiffs. The plaintiffs have alleged that the terminations were politically based and were done in violation of their rights. This matter is currently being litigated, and the County is vigorously contesting the claim.

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. Upon completion of the sale of the franchise to SWB Yankees LLC (See Note 18), the MPSA expects to 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2011

16. Commitments

During 2011, the LCPACA renegotiated its Concert Concession Agreement, which ended on December 31, 2011, with Live Nation to an amount that is insufficient to meet the Authority's operating, capital and/or debt service obligations. The County has agreed to fund any expenses of the LCPACA if it lacks the necessary funds. At December 31, 2011, the County had not paid any expenses of the Authority, beyond those disclosed in Note 14.

17. Concentration Of Labor

At December 31, 2011, approximately 66% of the County's employees are represented by unions, whose existing labor agreements expire on December 31, 2012 and 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 GASB 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 GASB Statement No. 45 to retirees or their spouses and dependents.

19. Subsequent Events

In 2010, the MPSA entered into a Memorandum of Understanding with SWB Yankees LLC to sell its baseball franchise for a price of \$14,600,000. The agreement also contained provisions that would require SWB Yankees LLC to enter into a thirty-year lease agreement at the MPSA's stadium at an annual payment of \$750,000 and the right to repurchase the franchise by the MPSA at fair market value. The sale was finalized in April 2012.

In March 2012, the County issued its General Obligation Notes, Series A & B of 2012 in the face amount of \$8,811,000 to provide funds for the refunding of its outstanding General Obligation Bonds, Series A and B of 2002 and to pay the costs of issuance. The Notes are due in varying installments through October 2020 with fixed interest rates of 3.94% on Series A Notes and 5.64% on Series B Notes.

In January 2012, the County was notified that its bond credit rating had been withdrawn by Moody's.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2011

20. New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (“SCA”). This statement addresses how to account for and report situations where a government engages another entity to operate a major capital asset on its behalf. This statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferor’s and governmental operators. To the extent applicable, the County is required to adopt Statement No. 60 for its calendar year 2012 financial statements.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates certain applicable accounting and financial reporting guidance of the FASB and AICPA into GASB literature to simplify the preparation of state and local government financial statements. The County is required to adopt Statement No. 62 for its calendar year 2012 financial statements.

In July 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. The County is required to adopt Statement No. 63 for its calendar year 2012 financial statements.

In July 2011, the GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. To the extent applicable, the County is required to adopt Statement No. 64 for its calendar year 2012 financial statements.

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

County of Lackawanna, Pennsylvania

Statement of Receipts, Disbursements and Changes in Cash Balances -
 General, Liquid Fuels, And Debt Service Funds Budget And Actual (Budgetary Modified Cash Basis) - Unaudited
 Year Ended December 31, 2011

	General Fund			Liquid Fuels Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Receipts									
Taxes	\$ 43,338,401	\$ 38,731,547	\$ (4,606,854)	\$ -	\$ -	\$ -	\$ 13,772,153	\$ 14,934,598	\$ 1,162,445
Payments in-lieu of taxes	221,500	214,373	(7,127)	-	-	-	-	-	-
Grants	19,778,351	16,844,726	(2,933,625)	2,755,280	1,327,903	(1,427,377)	-	-	-
Charges for services	21,073,650	16,835,061	(4,238,589)	-	-	-	-	-	-
Interest and rent	157,000	18,271	(138,729)	2,000	26	(1,974)	3,500	248	(3,252)
Fines and forfeits	37,500	29,592	(7,908)	-	-	-	-	-	-
Contributions and other	287,950	308,842	20,892	129,000	71,639	(57,361)	-	-	-
Total receipts	84,894,352	72,982,412	(11,911,940)	2,886,280	1,399,568	(1,486,712)	13,775,653	14,934,846	1,159,193
Disbursements									
General government - administrative	17,965,852	18,246,724	(280,872)	-	-	-	-	377,484	(377,484)
General government - judicial	17,959,021	18,587,381	(628,360)	-	-	-	-	-	-
Public safety	27,685,829	27,568,987	116,842	-	-	-	-	-	-
Public works	145,693	134,480	11,213	2,897,676	1,773,853	1,123,823	-	-	-
Human services	18,287,479	17,282,622	1,004,857	-	-	-	-	-	-
Culture and recreation	2,717,384	2,678,142	39,242	-	-	-	-	-	-
Conservation and development	642,881	575,103	67,778	-	-	-	-	-	-
Miscellaneous expense	845,965	1,679,536	(833,571)	-	-	-	-	-	-
Debt service:									
Principal	-	-	-	-	-	-	4,271,624	4,739,710	(468,086)
Interest	225,000	187,864	37,136	-	-	-	9,495,511	9,529,596	(34,085)
Total disbursements	86,475,104	86,940,839	(465,735)	2,897,676	1,773,853	1,123,823	13,767,135	14,646,790	(879,655)
Excess (Deficiency) of Receipts Over Disbursements	(1,580,752)	(13,958,427)	(12,377,675)	(11,396)	(374,285)	(362,889)	8,518	288,056	279,538
Other Financing Sources (Uses)									
Note proceeds, net	-	20,760,500	20,760,500	-	-	-	-	-	-
Transfers in	2,000,000	2,271,298	271,298	-	369,447	369,447	-	(376,864)	(376,864)
Transfers out	-	(7,794,266)	(7,794,266)	-	-	-	-	-	-
Total other financing sources (uses), net	2,000,000	15,237,532	13,237,532	-	369,447	369,447	-	(376,864)	(376,864)
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Sources	419,248	1,279,105	859,857	(11,396)	(4,838)	6,558	8,518	(88,808)	(97,326)
Fund Balance, Beginning	1,711,140	3,977,656	2,266,516	(557,791)	7,203	564,994	165,841	1,643,412	1,477,571
Fund Balance, Ending	\$ 2,130,388	\$ 5,256,761	\$ 3,126,373	\$ (569,187)	\$ 2,365	\$ 571,552	\$ 174,359	\$ 1,554,604	\$ 1,380,245

See note to required supplementary budgetary information

County Of Lackawanna, Pennsylvania

Note to Required Supplementary Budgetary Information

Unaudited

December 31, 2011

1. Reconciliation of Budgetary Cash Basis To GAAP Basis

A reconciliation of the County's budgetary cash basis to GAAP basis for 2011 is as follows:

	General Fund	Liquid Fuels	Debt Service
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary cash basis)	\$ 1,279,105	\$ (4,838)	\$ (88,808)
Reversal of prior year:			
Receivables	(16,906,186)	(401,269)	(485,600)
Liabilities	32,412,856	610,497	795,544
Record current year:			
Receivables	22,284,145	233,217	3,485,600
Liabilities	<u>(28,214,509)</u>	<u>(235,582)</u>	<u>(767,392)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 10,855,411</u>	<u>\$ 202,025</u>	<u>\$ 2,939,344</u>

For budget purposes, taxes collected by the General Fund and transferred to the Debt Service Fund were reported net. The actual revenue and transfers were reported gross on the General Fund.

County of Lackawanna, Pennsylvania

Required Supplemental Pension Information

Unaudited

December 31, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage of Covered Payroll ((b-a)/c)
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%

The actuarial assumptions used in the January 1, 2011 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.