

COUNTY OF LACKAWANNA, PENNSYLVANIA

**FINANCIAL STATEMENTS
DECEMBER 31, 2004**

COUNTY OF LACKAWANNA, PENNSYLVANIA

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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 business type 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, 2004, which collectively comprise the County's basis 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Lackawanna County Area Agency on Aging (a Special Revenue Fund) for the year ended December 31, 2004, which represent .5% of the total assets and 8% of the total revenues of the governmental activities and 16% of the total assets and 19% of total revenues of the Health and Human Services Fund. Except as explained in the third paragraph those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lackawanna County Area Agency on Aging, is based on the reports of the other auditors. In addition, we did not audit the financial statements of the Pension Trust Fund for the year ended December 31, 2004, which represents 7% of the total assets of the Fiduciary Funds. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Pension Trust Fund is based on the report 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 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 the audits in accordance with U.S. generally accepted auditing standards 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 provides a reasonable basis for our opinion.

The opinion of the other auditors on the 2004 financial statements of the Lackawanna County Area Agency on Aging (the "Agency") was qualified because they were not able to extend the scope of the audit of program income beyond the Agency's accounting for recorded cash receipts or to extend the scope of the audit of private in-kind resources beyond Agency's computation of the resources.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, that might have been determined to be necessary had the other auditors been able to audit program income beyond the Agency's, recorded cash receipts and if the auditors were able to audit private in-kind resources beyond the computation of the Agency's resources, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type 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, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Audit Standards*, we have also issued our report dated January 9, 2006 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 grants and other matters. The purpose of that report is to describe the scope of our testing and 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages III through XVIII and the budgetary comparison information on page 60 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Moosic, Pennsylvania
January 9, 2006

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

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 for the year ended December 31, 2004. 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 primary government. Component units, unless otherwise noted are not included in this discussion.

FINANCIAL HIGHLIGHTS

Overall the County's liabilities exceed the assets by \$31,744,017 at December 31, 2004. Governmental activities accounted for \$29,317,599 of this deficit; the business type activity accounted for the remaining \$2,456,418.

In total expenses exceeded revenue by \$13,506,824 in 2004. The Governmental activities expenses exceeded revenue by \$13,460,089 while the business type activities expenses exceeded revenue by \$46,735.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements are long-term.

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONT'D)

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in 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 but earned and unused compensated absences).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business activities). The governmental activities of the county include all of the County's activities except for the operation of the Montage Ski Resort, which is considered a business-type activity.

The government-wide financial statements can be found on pages 1-3 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, propriety 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.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

GOVERNMENTAL FUNDS (CONT'D)

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 changes 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 changes in fund balances for the County's major funds, which are the General Fund, Health and Human Services Fund and the Landfill Trust Fund. The other governmental funds are not considered individually significant and have been aggregated and reported under the caption "Nonmajor".

The County adopts an annual budget for its General, Debt Service and Liquid Fuels Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 60.

The basic fund financial statements can be found on pages 4 and 6 of this report.

PROPRIETARY FUNDS

The County accounts for the operations of the Montage Ski Resort (Enterprise Fund) and its self-funded workers' compensation program (Internal Service Fund) in proprietary funds, which report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The Internal Service Fund is included with the governmental activities in the government-wide financial statements since it primarily benefits governmental activities.

The basic proprietary fund financial statements can be found on pages 9 and 10 of this report.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

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 operations.

The basic fiduciary fund financial statements can be found on pages 14 and 15 of the 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 18-59 of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County prepares a budget each year for the General Fund, Debt Service, Liquid Fuels and various other funds according to Pennsylvania law. The General Fund budget is prepared on a cash basis and includes payroll paid for other funds (primarily human services funds such as the County Nursing Home) and organizations as expenditures and reimbursements received for those payroll related expenses as revenues.

The General Fund approved budget for 2004 included \$99,831,746 in revenues and transfers and other financing sources and \$103,953,709 of expenditures.

Actual revenues and other financing sources received in 2004 were \$118,295,897 or 121% of budget compared to \$88,847,286 in 2003. This includes a \$20,145,000 loan that was used to fund unfunded debt of the county including certain outstanding obligations of prior years. Significant negative variances were realized in the timing of certain state grants (\$2,850,000).

Actual expenses paid in 2004 were \$116,387,006 or 112% of budget compared to \$76,415,591 in 2003. This includes the payment of over \$14.8 million in prior year obligations.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County adopted the financial statement-reporting model required by GASB STATEMENT NO. 34 in 2003. Prior year information is provided for comparison purposes.

CONDENSED STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current and other assets	\$ 66,676,948	\$ 36,263,990
Capital assets	<u>68,409,919</u>	<u>67,899,791</u>
	<u>\$ 135,086,867</u>	<u>\$ 104,163,781</u>
<u>LIABILITIES AND NET DEFICIT</u>		
Current liabilities	\$ 28,782,246	\$ 35,566,751
Long-term and other liabilities	<u>135,622,220</u>	<u>84,982,271</u>
Total liabilities	<u>164,404,466</u>	<u>120,549,022</u>
NET DEFICIT		
Invested in capital assets, net of related debt	(5,460,919)	(9,454,390)
Restricted	36,785,580	8,375,610
Unrestricted	<u>(60,642,260)</u>	<u>(15,306,461)</u>
Total net deficit	<u>(29,317,599)</u>	<u>(16,385,241)</u>
	<u>\$ 135,086,867</u>	<u>\$ 104,163,781</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

CONDENSED STATEMENT OF NET ASSETS
BUSINESS TYPE ACTIVITY (MONTAGE SKI-RESORT)
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current and other assets	\$ 919,084	\$ 550,258
Capital assets	<u>5,504,751</u>	<u>6,238,035</u>
	<u>\$ 6,423,835</u>	<u>\$ 6,788,293</u>
<u>LIABILITIES AND NET DEFICIT</u>		
Current liabilities	\$ 587,131	\$ 583,136
Long-term and other liabilities	<u>8,293,122</u>	<u>8,614,840</u>
Total liabilities	<u>8,880,253</u>	<u>9,197,976</u>
NET DEFICIT		
Invested in capital assets, net of related debt	(2,683,649)	(2,376,805)
Unrestricted	<u>227,231</u>	<u>(32,878)</u>
Total net deficit	<u>(2,456,418)</u>	<u>(2,409,683)</u>
	<u>\$ 6,423,835</u>	<u>\$ 6,788,293</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

**CONDENSED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2004**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Program revenues:			
Charges for services	\$ 36,975,036	\$ 3,299,821	\$ 40,274,857
Operating grants and contributions	41,656,144	-	41,656,144
Capital grants and contributions	5,030,023	1,801	5,031,824
General revenues:			
Taxes levies for general purpose, net	39,436,036	-	39,436,036
Contributions and other	980,489	-	980,489
Transfers	(856,908)	856,908	-
Total revenues	<u>123,220,820</u>	<u>4,158,530</u>	<u>127,379,350</u>
EXPENSES:			
General government	14,787,089	-	14,787,089
Judicial	15,206,216	-	15,206,216
Corrections	26,940,387	-	26,940,387
Public works	5,224,575	-	5,224,575
Human services	53,677,619	-	53,677,619
Culture and recreation	5,387,021	-	5,387,021
Conservation and development	6,120,716	-	6,120,716
Other	3,162,047	-	3,162,047
Interest	6,175,239	-	6,175,239
Ski resort	-	4,205,265	4,205,265
Total expenses	<u>136,680,909</u>	<u>4,205,265</u>	<u>140,886,174</u>
CHANGE IN NET ASSETS	(13,460,089)	(46,735)	(13,506,824)
NET DEFICIT, BEGINNING, AS RESTATED	<u>(15,857,510)</u>	<u>(2,409,683)</u>	<u>(18,267,193)</u>
NET DEFICIT, ENDING	<u>\$ (29,317,599)</u>	<u>\$ (2,456,418)</u>	<u>\$ (31,774,017)</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

**CONDENSED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2003 - RESTATED**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Program revenues:			
Charges for services	\$ 33,543,495	\$ 4,287,380	\$ 37,830,875
Operating grants and contributions	39,989,435	-	39,989,435
Capital grants and contributions	2,120,435	-	2,120,435
General revenues:			
Taxes levies for general purpose, net	37,699,072	-	37,699,072
Contributions and other	10,082,440	14,343	10,096,783
Transfers	<u>(1,271,784)</u>	<u>1,271,784</u>	<u>-</u>
Total revenues	<u>122,163,093</u>	<u>5,573,507</u>	<u>127,736,600</u>
EXPENSES:			
General government	13,176,720	-	13,176,720
Judicial	12,335,032	-	12,335,032
Corrections	23,239,483	-	23,239,483
Public works	6,130,015	-	6,130,015
Human services	51,404,994	-	51,404,994
Culture and recreation	5,449,802	-	5,449,802
Conservation and development	4,615,465	-	4,615,465
Other	4,085,524	-	4,085,524
Depreciation	4,117,940	-	4,117,940
Interest	3,988,686	-	3,988,686
Ski resort	<u>-</u>	<u>5,372,693</u>	<u>5,372,693</u>
Total expenses	<u>128,543,661</u>	<u>5,372,693</u>	<u>133,916,354</u>
CHANGE IN NET ASSETS	(6,380,568)	200,814	(6,179,754)
NET DEFICIT, BEGINNING, AS RESTATED	<u>(9,476,942)</u>	<u>(2,610,497)</u>	<u>(12,087,439)</u>
NET DEFICIT, ENDING AS RESTATED	<u>\$ (15,857,510)</u>	<u>\$ (2,409,683)</u>	<u>\$ (18,267,193)</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

GOVERNMENTAL ACTIVITIES

The decrease of \$13,460,089 in 2004 results from the continuing general increase in expenditures without an appreciable increase in County revenues. The County real estate tax millage remains unchanged since the year 2001.

BUSINESS TYPE ACTIVITY

The minimal decrease of \$46,735 in 2004 results only after the net transfer of \$856,908 from the County general fund. Without the transfer the operations had a loss of \$903,643 in 2004.

FINANCIAL ANALYSIS OF THE FUNDS

GENERAL FUND (MAJOR FUND)

The following represents a summary of general fund revenue, by source, along with changes from 2003.

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Taxes	\$ 38,436,653	\$ 37,678,891	\$ 757,762	2.10%
Grants	17,337,997	14,772,563	2,565,434	17.37%
County charges and earnings	10,965,688	11,697,685	(731,997)	(6.3%)
Contribution and other	991,643	2,393,462	(1,401,819)	-
Transfers in	<u>4,157,963</u>	<u>2,573,781</u>	<u>1,584,182</u>	<u>61.60%</u>
	<u>\$ 71,889,944</u>	<u>\$ 69,116,382</u>	<u>\$ 2,773,562</u>	<u>4.01%</u>

The general fund revenues increase was a combination of several factors as explained below:

Tax revenue primarily increased due to increased collection of current year taxes. Several Federal and state grants increased throughout the year, the largest increase was related to the Federal and state grant money that was received for Children and Youth for the year ended December 31, 2004. Operating transfers increase by 61.60% which is related to debt proceeds recorded in the debt service fund which were used to pay off prior year general fund liabilities.

Although most of the general fund revenues increased there was a decline in County charges and earnings primarily because there was less use, therefore less reimbursements for the following Programs: County prison, Coordinated transportation and human services.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

GENERAL FUND (MAJOR FUND) (CONT'D)

The following represents a summary of General Fund expenditures, by function along with changes from 2003.

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
General government	\$ 12,488,120	\$ 11,040,094	\$ 1,448,026	13.10%
Judicial	12,742,901	10,057,612	2,685,289	26.70%
Corrections	23,409,419	20,918,678	2,490,741	11.90%
Public works	550,411	4,630,338	(4,079,927)	-
Human services	16,206,976	15,814,856	392,120	2.50%
Culture and recreation	4,343,929	3,973,470	370,459	0.90%
Conservation/Development	747,778	760,328	(12,550)	(1.7%)
Miscellaneous	851,434	1,415,673	(564,239)	(40.0%)
Transfers out	<u>7,227,274</u>	<u>7,496,587</u>	<u>(269,313)</u>	<u>(3.6%)</u>
	<u>\$ 78,568,242</u>	<u>\$ 76,107,636</u>	<u>\$ 2,460,606</u>	<u>3.20%</u>

Overall the expenses increased by \$2.5 million, which can be primarily explained by the pension contribution that was made during 2004. During 2004 there was \$3.9 million used to fund the 2004 pension obligation and to partially fund the 2003 outstanding pension obligation. The pension cost was distributed amongst the different departments which is the primary reason for the increase in each department.

The increase in general government and administrative expense is primary due to the amount of funds that were contributed to local not for profits and the amount used to fund the pension liability.

The large increase in judicial is primarily from reclassing District Attorney expenditures out of public works into judicial. These grants are used to help prevent, deter and punish crime.

The increase in Public Safety corrections is primarily due to the pension obligation being funded and the cost of placing adjudicated juveniles.

The decrease in public works expenditures is a result of several functions; approximately \$2 million being reclassified out of public works and into judicial; the recycling center expenses were moved out of the general fund and into other non-major funds and there was less spending on public works facilities funded by the general fund.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

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 the County Nursing Home, Aging services, Day Care services, Drug and Alcohol Treatment and Prevention Services and Medical Transportation Services.

Total revenues in 2004 were \$36,951,879 versus \$33,873,213 in 2003 or an increase of \$3,078,666 or 9.1%. The main reason for the increase was the increased utilization and rate maximization at the County nursing home.

Total expenditures including transfers in 2004 were \$36,156,715 versus \$34,903,688 in 2003 an increase of \$1,253,027 or 3.6%. The increase in health and human services expenditures is primarily due to the increase costs incurred by the daycare program, Lackawanna Health Care Program as well as several Human Services Programs. Although these costs have increased by \$1.6 million it is worth noting that the amount of revenues related to these services have also increased by \$3 million.

As a result of the increase in revenues of \$3,078,666 and the increase in expenses of \$1,253,027 the fund balance increased from a deficit of \$295,878 to a fund balance of \$499,286.

LANDFILL TRUST FUND (MAJOR FUND)

The Landfill Trust Fund was established in 2003 with the receipt of \$8.5 million from the termination of trust funds established by the Commonwealth of Pennsylvania relating to the post-closure of landfills located in the county. In 2003 approximately 2.4 million was transferred to the county. There were no transfers in 2004, however the investment account earned \$137,000 in 2004. The balance was \$6,368,468 on December 31, 2004.

NON MAJOR GOVERNMENTAL FUNDS

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.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

NON MAJOR GOVERNMENTAL FUNDS (CONT'D)

The County issued approximately \$63.7 million in bonds during 2004 to be used for capital projects, funding the county pension plan, funding unpaid obligations of prior years, and refinancing the 1994 bonds related to the ski resort. The County made debt principal payments of \$11.2 million and interest payments of \$4 million. The fund balance increased from \$1.9 million to \$4.9 million primarily due to a required reserve related to the 2004 bond issue.

The Capital Projects Fund accounts for resources used in the acquisition, renovation and construction of major assets. During 2004, the County spent approximately \$8.3 million in capital improvements. The fund balance increased to \$22,300,000 from \$890,000 in 2003. This is a result of the debt proceeds which were received in 2004 for capital projects which were not spent by December 31, 2004.

The other Special Revenue Funds account for the liquid fuels, domestic relations and other miscellaneous activities of the County. There were no significant changes in the fund from 2003. The fund balance was \$2.45 million at December 31, 2004.

ENTERPRISE FUND (MAJOR)

The Enterprise Fund accounts for the activity of the Montage Ski Resort. As described previously under the caption "Business type Activity", the fund lost \$903,643 before transfers in to the fund.

INTERNAL SERVICE FUND (MAJOR)

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 minimum levels of assets in an irrevocable trust for the payment of future benefits. The County has adhered to the states requirement of a minimum level and as a result the fund has a deficit fund balance of \$1,596,843.

PENSION TRUST FUND

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan, which amounted to \$103,848,714 at December 31, 2004. This represented an increase of \$11,268,409 or 12% over the balance at December 31, 2003, which was \$92,580,305. The County has a net pension obligation due at December 31, 2004 of approximately \$2.9 million.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

AGENCY FUND

The Agency Fund accounts for assets held by the County in a custodial function for individuals or other government. The County held approximately \$3.5 million in that role as of December 31, 2004.

CAPITAL ASSETS

The County investment in capital assets at December 31, 2004 is summarized below:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:			
Land	\$ 1,321,626	\$ -	\$ 1,321,626
Land - Trolley Museum	-	-	-
Constuction-in-Progress	-	3,504,040	3,504,040
Infrastructure	30,759,354	-	30,759,354
Investment in Airport	5,308,547	575,651	5,884,198
Buildings and Improvements	60,991,974	33,660	61,025,634
Machinery and Equipment	<u>24,678,235</u>	<u>557,000</u>	<u>25,235,235</u>
Total Capital Assets	<u>123,059,736</u>	<u>4,670,351</u>	<u>127,730,087</u>
Less: Accumulated depreciation:			
Infrastructure	26,891,625	332,134	27,223,759
Investment in Airport	1,884,162	89,550	1,973,712
Buildings and Improvements	15,293,036	1,559,390	16,852,426
Machinery and Equipment	<u>11,091,122</u>	<u>2,179,149</u>	<u>13,270,271</u>
Total Accumulated Depreciation	<u>55,159,945</u>	<u>4,160,223</u>	<u>59,320,168</u>
Total capital assets net of accumulated depreciation	<u>\$ 67,899,791</u>	<u>\$ 510,128</u>	<u>\$ 68,409,919</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

CAPITAL ASSETS (CONT'D)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES:			
Land	\$ 1,404,000	\$ -	\$ 1,404,000
Land Improvements	7,533,605	-	7,533,605
Buildings and Improvements	3,496,234	30,530	3,526,764
Machinery and Equipment	<u>7,469,362</u>	<u>85,116</u>	<u>7,554,478</u>
Total capital assets	<u>19,903,201</u>	<u>115,646</u>	<u>20,018,847</u>
Less: Accumulated depreciation:			
Land Improvements	5,976,091	502,240	6,478,331
Buildings and Improvements	2,279,398	90,740	2,370,138
Machinery and Equipment	<u>5,409,877</u>	<u>255,750</u>	<u>5,665,627</u>
Total accumulated depreciation	<u>13,665,366</u>	<u>848,730</u>	<u>14,514,096</u>
Total capital assets net of depreciation	<u>\$ 6,237,835</u>	<u>\$ (733,084)</u>	<u>\$ 5,504,751</u>

LONG-TERM DEBT

As of December 31, 2004 the County net general obligation debt was \$140,658,739. This amount is approximately 46% of the County legal limit of 300 million as calculated in 2004. Approximately 4.5 million in principal of this debt is scheduled for payment in 2005.

ECONOMIC CONDITION AND OUTLOOK

The County had large deficits in both 2004 and 2003. County real estate tax millage, the primary source of revenue had remained unchanged since 2001. On December 1, 2004 the County issued \$20,145,000 of general obligation bonds to finance the unfunded debt related to the accumulated deficit from 2002, 2003 and 2004 without the borrowing, the deficit would have been (\$14,742,000) for 2004.

Lackawanna County increased its real estate tax millage in 2005 by 14 mills for library, culture and education. This tax increase generates approximately \$16.8 million in additional revenues. These funds will insure that the County structural deficit is corrected and that the finances of the county will go forward show stability.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2004**

ECONOMIC CONDITION AND OUTLOOK (CONT'D)

In 2005 the County acquired and began implementation of a new Financial Accounting System. With the assistance of our software partner, New World Systems, the County successfully implemented the procurement, revenue collections, miscellaneous billing and general ledger components of the new system on September 6, 2005. Plans for 2006 include implementation of the payroll, human resources, budget, fixed asset and pension components of the new system with final implementation by December 31, 2006.

The new system will allow the County to convert from the antiquated "cash" basis of accounting which had been has utilized for many years, to a "Full Accrual" basis of accounting which parallels the system used in most business environments.

The County continues to analyze its operations both internally and with its component units to realize cost savings through consolidation.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requested for additional information should be addressed to the Office of the Commissioners, County of Lackawanna, Pennsylvania, 200 Adams Avenue, Scranton, Pennsylvania, 18503.