

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Lackawanna, Pennsylvania (the "County").

Reporting Entity

The County is a legal subdivision of the Commonwealth of Pennsylvania charged with general governmental powers under the laws of the state. The County operates under a Home Rule charter form of government and its powers are exercised through an elected three member Board of Commissioners. The County provides general governmental services, public safety, health and welfare, recreation and community enrichment programs.

As required by U.S. generally accepted accounting principles, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Commissioners are typically their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and Statement No. 39, "*Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14*," to determine whether the following component units should be reported as blended or discretely presented component units.

Blended Component Units

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 in the Other Special Revenue Fund. The component units reported in this way are:

- Lackawanna County Commission on Drug and Alcohol Abuse. The Commission is responsible for developing and implementing a plan for the prevention and treatment of drug and alcohol abuse in Lackawanna County. The Commission receives funding primarily from the Commonwealth of Pennsylvania.
- Lackawanna County Solid Waste Management Authority. The Authority is responsible for implementing the County's recycling program and operates the County recycling center.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Reporting Entity (Cont'd)

Discretely Presented Component Unit

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:

- Scranton Lackawanna Health and Welfare Authority. The Authority acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the Authority.
- Lackawanna County Library System. The System 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 System.
- Lackawanna County Redevelopment Authority. The Authority administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the Authority.
- Lackawanna County River Basin Sewer Authority. The Authority owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.
- County of Lackawanna Transit System Authority. The Authority operates the County's mass transit system. The County Commissioners appoint the governing board of the Authority.
- Lackawanna County Railroad Authority. The Authority operates railroad lines in the County. The County Commissioners appoint the governing board of the Authority.
- Multi-Purpose Stadium Authority of Lackawanna County. The Authority operates the Lackawanna County Multi-Purpose Stadium and the Scranton/Wilkes-Barre Red Barons, a professional baseball team. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Reporting Entity (Cont'd)

Discretely Presented Component Unit (Cont'd)

- Lackawanna County Performing Arts Center Authority. The Authority operates a performing arts amphitheatre. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.

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

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 2004, the County provided approximately \$2,100,000 of capital. In addition, the County loaned the Airport \$900,000 for completion of the new terminal at the Airport. The County has included a net investment in Airport of \$3,910,486 in its capital assets at December 31, 2004.
- Lackawanna Susquehanna Wayne Mental Health Mental Retardation Program. A joint venture with the Counties of Susquehanna and Wayne, each county appoints three 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, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements report long-term liabilities and capital assets. Depreciation expense and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the "current financial resources" measurement focus. Fund financial statements are shown separately for specific major governmental funds, and in total for all other governmental funds. Fund financial statements for proprietary funds are reported under the accrual basis of accounting and the economic resources measurement focus. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the Governmental Funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

Government-Wide Financial Statements

The County Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the County accompanied by a total column. Fiduciary activities of the County are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the County's assets and liabilities, including capital assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrated the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The types of transactions reported as program revenues for the County are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not included among program revenues are reported as general revenues.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Government-Wide Financial Statements (Cont'd)

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund receivables, payables and activities. All internal balances in the statement of net assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The County applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedures. The County applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in governmental fund balances as presented in these statements to the net assets presented in the Government-Wide financial statements. The County has presented all major funds that met the applicable criteria.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Governmental Fund Financial Statements (Cont'd)

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period (the County considers all revenues available if they are collected within 60 days after year end). Property taxes, sales tax, franchise taxes, licenses, interest, and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and recognized as revenue at that time. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest, which is recognized when due, and certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use and balances of the County's expendable financial resources and the related liabilities are accounted for through governmental funds. The following is a description of the governmental funds of the County:

General Fund (Major)

The General Fund accounts for the general operations of the County and all financial transactions not accounted for in another fund.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Governmental Fund Types (Cont'd)

Special Revenue Funds

Special Revenue Funds are used to account for specific revenue sources that are legally restricted to expenditures for specified purposes. The County uses the following Special Revenue Funds:

Health and Human Services Fund (Major)

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

Landfill Trust (Major)

The Landfill Trust Fund accounts for the funds received from the termination of state-established post-closure landfill tax funds. Such funds may be used only for conservation purposes under Pennsylvania law.

Proprietary Fund Types

Proprietary funds account for the operations of the County that are financed and operated in a manner similar to those often found in the private sector. The funds included in this category are:

Enterprise Fund (Major)

The Enterprise Fund accounts for the operation of the Montage Ski Resort. The Enterprise Fund distinguishes between revenues and expenses and nonoperating items. Operating revenues consist of charges for use of the ski area. Operating expenses are costs incurred in operating the ski area, and depreciation and amortization. All other revenues and expenses are reported as nonoperating.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Proprietary Fund Types (Cont'd)

Internal Service Fund (Major)

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

Fiduciary Fund Types

Fiduciary funds account for the assets held by the County as a trustee or agent for individuals currently or previously employed by the County, private organizations and/or governmental units. The funds included in this category are:

Pension Trust Fund

The Pension Trust Fund accounts for the assets held in trust in the County's retirement plan.

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial or agent function.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the County's policy is to apply restricted net assets first.

Investments

In accordance with Governmental Accounting Standards Board Statement Number 31 (GASB 31), investments are recorded at fair value; changes in fair value are included with investment income in the operating statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Receivables

Accounts receivable in the governmental fund financial statements are shown at the total amount due. Amounts not collected within 60 days are offset by deferred revenue in the fund financial statements. Accounts receivable in the governmental-wide financial statements are stated net of allowances for uncollectible amounts of \$9,916,842.

The allowance for doubtful accounts for accounts receivable is based on historical collection.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the Enterprise Fund. These assets generally 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. Capital assets used by the Enterprise Fund are reported both in the business-type activity column of the government-wide statement of net assets and in the fund financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

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.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Infrastructure and airport	20-50 years	N/A
Land improvements	N/A	20 years
Buildings and improvements	25 years	25 years
Furniture and equipment	5-20 years	5-20 years

The County defines infrastructure as the basic physical assets that allow the County to function. The assets include the street system, water purification and distribution system, sewer and water pipes system, park and recreation lands and improvements, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas used by the County in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets (Cont'd)

For all infrastructure systems, the County elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of County owned infrastructure and property as of June 30, 2004 and has completed an update for December 31, 2004. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date, is calculated by using the straight-line method for depreciation using the industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

Compensation Absences

For governmental and business-type activities, compensated absences are recorded as incurred and related expenses and liabilities are reported.

In governmental funds, compensated absences are recorded as expenditures in the years paid.

Self-Insurance

The County is self-insured for workers' compensation claims. Liabilities are accrued based upon case reserves, development of known and incurred but not reported claims, including allocated loss adjustment expenses.

Stewardship, Compliance and Accountability - Budgetary Information

The County adopts annual budgets for the General Fund, Liquid Fuels Fund, and Debt Service Fund.

The County's budget is prepared primarily on a cash basis and included appropriations to cover prior and anticipated encumbrances. Budgets are approved by the Commissioners which contain estimated revenues adequate to fully fund appropriations. Appropriations not reserved for encumbrances fully lapse at the end of the year.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property Taxes

The provisions of the Pennsylvania Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are computed by applying approved property tax rates to the assessed value of properties as determined by the County Assessor, in the case of locally assessed property, and as determined by the State Board of Equalization. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The total tax on real estate in 2004 was 29.7293 mills (\$29.7293 per \$1,000 of assessed valuation). Of this amount, 27.6293 mills were levied for general and debt service purposes and 2.1 mills were levied for library services in the County. 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, 2004 were \$13,443,838. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of \$6,680,756.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Transactions

The County had numerous transactions between funds to finance operations, provide services, construct assets, and service debt. These transactions are classified as operating transfers-in/out, and due from/to other funds. The following illustrations summarize interfund transactions (as presented in the County's Fund Financial Statements) for the year ended December 31, 2004.

The operating transfers between funds for the year ending December 31, 2004 is as follows:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund:		
Nonmajor funds:		
Special Revenue Fund	\$ 171,136	\$ 1,008,498
Debt Services Fund	3,911,821	5,462,028
Capital Projects Fund	75,006	-
	<hr/>	<hr/>
Total nonmajor funds	4,157,963	6,470,526
Enterprise Fund	-	806,748
	<hr/>	<hr/>
Total General Fund	<u>\$ 4,157,963</u>	<u>\$ 7,277,274</u>
Nonmajor Funds:		
Special Revenue Fund:		
General Fund	\$ 1,008,498	\$ 171,136
Debt Service Fund	-	936,338
Capital Projects Fund	-	43,535
	<hr/>	<hr/>
Total Special Revenue Funds	<u>1,008,498</u>	<u>1,151,009</u>
Debt Service Fund:		
General Fund	5,462,027	3,911,821
Capital Projects Fund	-	25,045,865
Special Revenue Fund	258,390	-
Health and Human Services Funds	677,947	-
Enterprise Fund	509,746	440,370
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Total Debt Services Fund	<u>6,908,110</u>	<u>29,398,056</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Transactions (Cont'd)

Capital Projects Fund:		
General Fund	-	75,006
Debt Service Fund	25,045,865	-
Special Revenue Fund	43,535	-
Enterprise Fund	-	<u>119,546</u>
Total Capital Projects Fund	<u>25,089,400</u>	<u>194,552</u>
Total Nonmajor funds	<u>\$ 33,006,019</u>	<u>\$ 30,065,669</u>
Health and Human Services Funds:		
Debt Service Fund	<u>\$ -</u>	<u>\$ 677,947</u>
Enterprise Fund:		
General Fund	\$ 806,748	\$ -
Capital Projects Fund	119,546	-
Debt Service Fund	<u>440,370</u>	<u>509,756</u>
Total Enterprise Fund	<u>\$ 1,366,664</u>	<u>\$ 509,756</u>

Effects of New Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In March 2003, GASB issued Statement No. 40, "*Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3.*" This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk and is effective for fiscal periods beginning after June 15, 2004. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. The County Treasurer will implement the new reporting requirements in the 2005 financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Effects of New Pronouncements (Cont'd)

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*" This statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after June 30, 2005. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The County intends to implement the new reporting requirements in the 2006 financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after June 30, 2006. The approach followed in this statement reflects differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, stand-alone financial reports of OPEB plans, the public employee retirements systems, or third parties that administer them. This statement also provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans that are not a trust fund. The County intends to implement the new reporting requirements in the 2007 financial statements.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1.*" This statement amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section and is effective for fiscal periods beginning after June 30, 2005. These amendments add new information that financial statement users have identified as important and eliminates certain previous requirements. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, to assess the economic condition of a government. The County plans to implement the new reporting requirements for the year ending 2006 financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Effects of New Pronouncements (Cont'd)

In June 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The County plans to implement the new reporting requirements in the 2007 financial statements.

In May 2004, GASB issued Technical Bulletin No. 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues.*". This Technical Bulletin addresses accounting by state and local governments in connection with settlements made by U.S. tobacco companies. The Technical Bulletin clarifies accounting guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, the Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement. The County currently does not have a Tobacco Settlement Authority.

NOTE 2: CASH AND INVESTMENTS

Pennsylvania statutes provide for investment into certain authorized investment types, including United States Treasury bills, other short-term United States and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition, the County provides that a pension or retirement fund may make an investment in corporate stocks and bonds, real estate and other investments consistent with sound business practice.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 2: CASH AND INVESTMENTS (CONT'D)

Cash

Cash balances are categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes bank balances that are insured (by federal depository insurance) or collateralized with securities held by the County or its agent in the County's name. Category 2 includes bank balances collateralized with securities held by the bank or its agent in the County's name. Category 3 includes bank balances that are uncollateralized, including any bank balance that is collateralized with securities held by the bank or its agent but not in the County's name. Category 3 includes balances collateralized under Act 72 of the Commonwealth of Pennsylvania, which requires all public funds in excess of \$100,000 be collateralized.

At December 31, 2004, the bank balance of the primary government's deposits was \$45,022,962 compared to the carrying amount of \$43,048,525. The total bank balance that was secured by Federal depository insurance was \$540,185 (Category 1). The remainder was secured by securities pledged by the financial institutions for such funds but not in the County's name (Category 3). The County also holds funds in a fiduciary role (Pension Trust and Agency Funds). The bank balance of these deposits was \$3,831,193 compared to the carrying amount of \$3,711,787. The total bank balance classified as Category 1 was \$314,426 and the remainder is classified as Category 3. The County reclassified the \$1,169,461 balance due the General Fund by the Agency Fund at December 31, 2004 as cash in the government-wide financial statements.

Investments

Investments of governmental units are also categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes securities that are insured or registered or which are held by the County or its agent in the County's name. Category 2 includes securities held by the counterparty or agent in the County's name. Category 3 includes uninsured and unregistered investments held by the counterparty or agent, but not in the County's name. Certain investments are not categorized (e.g., mutual funds) because securities are not used as evidence of the investment.

At December 31, 2004, the carrying amount of the primary government's investments was \$110,092,395. The carrying amount of investments classified as Category 1 was \$92,255,129. The carrying amount of investments classified as Category 3 was \$6,368,468. The remainder consists of mutual funds that are uncategorized as to investment risk.

Discretely presented component unit financial statements do not provide all the credit risk disclosures on cash and cash equivalents and investments. Therefore, no information on credit risk for these entities has been provided.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 2: CASH AND INVESTMENTS (CONT'D)

Due from/to Component Units

At December 31, 2004 the County owed the County of Lackawanna Transit System Authority ("COLTS") \$574,057 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2004, the amounts shown in the financial statements do not agree.

The County has advanced \$3,236,086 to the Multi Purpose Stadium Authority of Lackawanna County ("MPSA"), primarily to fund MPSA's debt service payments. 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 the entire amount.

NOTE 3: CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:			
Capital assets, not being depreciated:			
Land	\$ 1,071,626	\$ -	\$ 1,071,626
Land - Trolley Museum	250,000	-	250,000
Constuction in Progress	<u>-</u>	<u>3,504,040</u>	<u>3,504,040</u>
 Total Capital Assets, not being depreciated	 <u>1,321,626</u>	 <u>3,504,040</u>	 <u>4,825,666</u>
 Capital assets, being depreciated:			
Infrastructure	30,759,354	-	30,759,354
Investment in Airport	5,308,547	575,651	5,884,198
Buildings and Improvements	57,257,190	33,660	57,290,850
Buildings and Improvements - Trolley Museum	3,734,784	-	3,734,784
Machinery and Equipment	23,940,535	557,000	24,497,535
Machinery and Equipment - Trolley Museum	<u>737,700</u>	<u>-</u>	<u>737,700</u>
 Total Capital Assets, being depreciated	 <u>121,738,110</u>	 <u>1,166,311</u>	 <u>122,904,421</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 3: CAPITAL ASSETS (CONT'D)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES (CONT'D):			
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	14,872,873	1,466,020	16,338,893
Buildings and Improvements - Trolley Museum	420,163	93,370	513,533
Machinery and Equipment	10,869,612	2,130,016	12,999,628
Machinery and Equipment - Trolley Museum	221,510	49,133	270,643
	<u>55,159,945</u>	<u>4,160,223</u>	<u>59,320,168</u>
Total Accumulated Depreciation			
	<u>66,578,165</u>	<u>(2,993,912)</u>	<u>63,584,253</u>
Total capital assets being depreciated, net			
Governmental activities capital assets, net	<u>\$ 67,899,791</u>	<u>\$ 510,128</u>	<u>\$ 68,409,919</u>

Depreciation expense was charged to functions/programs of governmental activities as follows:

Governmental Activities:	
General government administrative	\$ 349,888
General government judicial	196,492
Public safety corrections	933,052
Public works	1,301,058
Health and human services	1,110,021
Conservation and development	2,783
Culture and recreation	257,033
Miscellaneous	<u>9,896</u>
Total depreciation expense - governmental activities	<u>\$ 4,160,223</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 3: CAPITAL ASSETS (CONT'D)

Capital asset activity for business-type activities for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES:			
Capital assets, not being depreciated:			
Land	<u>\$ 1,404,000</u>	<u>\$ -</u>	<u>\$ 1,404,000</u>
Capital assets, being depreciated:			
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, being depreciated	<u>18,499,201</u>	<u>115,646</u>	<u>18,614,847</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 being depreciated, net	<u>4,833,835</u>	<u>(733,084)</u>	<u>4,100,751</u>
Business-type activities capital assets, net	<u>\$ 6,237,835</u>	<u>\$ (733,084)</u>	<u>\$ 5,504,751</u>

Depreciation expense charged to business-type activities was \$848,730 for the year ended December 31, 2004. The Montage Fund is the only fund which is considered a business-type activity; therefore, fixed asset and depreciation information for business-type activities in the Governmental-Wide financial statements is the same as the fixed asset information in the Enterprise Fund financial statements.