

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS

Governmental Activities

At December 31, 2004, general long-term debt obligations were as follows:

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
<u>BONDS AND NOTES PAYABLE</u>				
1995 \$725,000 General Obligation Bonds (Series B of 1995), payable in varying annual installments plus interest of 6.00% to 7.25% , with final maturity scheduled for 2009. These bond proceeds were used to repay a 1994 bank loan.	\$ 395,000	\$ -	\$ 55,000	\$ 340,000
1997 \$8,475,000 General Obligation Bonds (Series of 1997), payable in varying annual installments plus interest of 4.2% to 5.6% , with final maturity scheduled for 2022. These bond proceeds were used to finance the expansion of the County's Health Care Center.	490,000	-	240,000	250,000
1997 \$34,485,000 General Obligation Bonds (Series A of 1997), payable in varying annual installments plus interest of 4.15% to 5.5% , with final maturity scheduled for 2020. These bond proceeds were used to finance the expansion and renovation of the County Prison.	34,460,000	-	5,000	34,455,000

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Governmental Activities (Cont'd)

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
1999 \$27,865,000 General Obligation Bonds (Series A of 1999), payable in varying annual installments plus interest of 3.00% to 5.00% , with final maturity scheduled for 2022. These bond proceeds were used to refund a 1993 bond issue, advance refund a portion of a 1994 bond issue, advance refund a 1996 bond issue and advance refund a portion of the 1997 bond issue as well as finance various capital projects.	25,475,000	-	775,000	24,700,000
1999 \$5,225,000 General Obligation Bonds (Series B of 1999), payable in varying annual installments plus interest of 5.875% to 7.000%, with final maturity scheduled for 2019. These bond proceeds were used to finance the construction of the amphitheatre. In 2002, the County transferred \$3,890,000 of the obligation to the Lackawanna County Performing Arts Center Authority.	1,115,000	-	40,000	1,075,000
2002 \$19,540,000 General Obligation Bonds (Series A of 2002), payable in varying annual installments plus interest of 2.000% to 5.125% , with final maturity scheduled for 2020. These bond proceeds were used to refund the 1992 and 1995 bond issues and finance various capital projects.	18,060,000	-	1,405,000	16,655,000

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Governmental Activities (Cont'd)

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
2004 \$10,110,000 General Obligation Bonds (Series A of 2004), payable in varying annual installments plus interest of 2.000% to 5.000%, with final maturity scheduled for 2015. These bond proceeds were used to refund the 1994 bond issues, finance a portion of the cost of certain capital projects of the County, fund a deposit to a debt service reserve fund and to pay the costs of issuing and insuring the 2004 A and 2004 B Bonds.	-	1,485,000	-	1,485,000
2004 \$29,270,000 General Obligation Bonds (Series B of 2004), payable in monthly installments of interest only at a fixed rate of 3.693% until 2016. In 2016 monthly payments of principal and interest at 3.693% will begin until the bonds mature in 2028. The bond agreement required the County to enter into an interest swap agreement with PNC Bank, in which the bank will pay the county a variable interest rate. These bond proceeds were used to refund the 1994 bond issues, finance a portion of the cost of certain capital projects of the County, fund a deposit to a debt service reserve fund and to pay the costs of issuing and insuring the 2004 A and 2004 B Bonds.	-	29,270,000	-	29,270,000

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Governmental Activities (Cont'd)

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
<p>2004 \$4,210,000 General Obligation Bonds (Series C of 2004), payable in varying annual installments plus interest of 3.76% to 5.35%, starting in 2008, with final maturity scheduled for 2019. These bond proceeds were used to finance the payment of unfunded accrued actuarial pension obligations of the County, to fund a deposit to a debt service reserve fund and pay the costs of issuing and insuring the 2004C bonds.</p>	-	4,210,000	-	4,210,000
<p>2004 \$20,145,000 General Obligation Bonds (Series D of 2004), payable in varying quarterly installments of principal plus interest not to exceed 8.00% with final maturity scheduled for 2019. These bond proceeds were used to finance unfunded debt of the County, including certain outstanding obligations of the current and prior fiscal years.</p>	-	20,145,000	-	20,145,000
<p>Note payable to bank requiring monthly payments of \$9,428 including interest at a rate of 7.85%, through August 2008. Lackawanna County and Luzerne County have equally assumed the bank debt of the Northeastern Pa. Sports Development Corporation (NPSDC), the entity was established to purchase the professional baseball team operated by the Multipurpose Stadium Authority of Lackawanna County. In the event of the sale of the professional baseball team, the County of Luzerne will be entitled to one-half of the proceeds of the sale.</p>	<u>205,439</u>	<u>-</u>	<u>43,730</u>	<u>161,709</u>
	<u>\$ 80,200,439</u>	<u>\$ 55,110,000</u>	<u>\$ 2,563,730</u>	<u>\$ 132,746,709</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Governmental Activities (Cont'd)

The following summarizes the County's future debt service requirements on the above bonds and note payable as of December 31, 2004:

<u>YEAR ENDED DECEMBER 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$ 4,366,550	\$ 564,319	\$ 4,930,870
2006	4,476,155	5,440,670	9,916,825
2007	4,777,148	5,178,916	9,956,064
2008	5,233,614	4,903,653	10,137,266
2009	5,804,963	4,604,273	10,409,236
2010-2014	35,540,126	17,602,462	53,142,588
2015-2019	36,473,153	7,938,008	44,411,161
2020-2024	19,535,000	519,713	20,054,713
2025-2029	<u>16,540,000</u>	<u>-</u>	<u>16,540,000</u>
Total	<u>\$ 132,746,709</u>	<u>\$ 46,752,013</u>	<u>\$ 179,498,723</u>

The County entered into an interest rate swap agreement as a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in November 2004, in connection with its \$29,270,000 2004 Series B variable-rate bonds. The intention of the swap was to effectively change the County's variable interest rate on the bonds to a synthetic fixed rate of 3.693 percent.

The bonds and the related swap agreement mature on October 15, 2029, and the swap's notional amount of \$29,270,000 matches the \$29,270,000 variable-rate bonds. The swap was entered into at the same time the bonds were issued (November 2004). Starting in fiscal year 2016, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the County pays the counterparty, PNC. Bank, N.A., a fixed payment of 3.693 percent and receives a variable payment computed as 63 percent of the London Interbank Offered Rate (LIBOR) plus 25 basis points. Conversely, the bond's variable-rate is based upon a weekly interest rate as determined by the remarketing agent.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4 : LONG-TERM OBLIGATIONS (CONT'D)

The swap had a negative fair value of \$1,106,723 as of December 31, 2004. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by the counterparty based on proprietary models rather than actual market quotations.

As of December 31, 2004, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Standard & Poor's and A-1 by Moody's Investors Service as of December 31, 2004.

The swap exposes the government to basis risk should the relationship between LIBOR plus 25 basis points and the weekly interest rate as determined by the remarketing agent converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate 3.93 percent and the synthetic rate as of December 31, 2004, 3.693 percent. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of December 31, 2004, the Weekly Interest rate was 2.01 percent, whereas 63 percent of LIBOR plus 25 basis points was 1.773 percent.

The 2004B Swap Agreement will terminate on October 15, 2029, unless terminated sooner in accordance with its terms. The County has the option to terminate all or part of the 2004B Swap Agreement at any time, so long as it has sufficient funds available to pay any termination amount due and owing in connection therewith. The 2004B Swap Agreement will terminate upon the event of a default termination event or additional termination events as set forth in the ISDA master agreement, and upon the following termination events:

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

The County fails to maintain ratings of at least "Baa3" from S&P and "BBB" from Moody's and one of certain adverse events has occurred with respect to the Bond Insurer and is continuing. These adverse events include: (i) nonpayment by the Bond Insurer of amounts due under its policy to the Counterparty; (ii) the Bond Insurer's policy is not in full force and effect or its validity is challenged by the Bond Insurer; (iii) it becomes unlawful for the Bond Insurer to perform under its policy; (iv) certain events of bankruptcy for the Bond Insurer; and (v) the claims paying ability rating of the Bond Insurer falls below "A" by S&P and the financial strength rating of the Bond Insurer falls below "A2" by Moody's, or any such ratings withdrawn or suspended and not reinstated within 30 days.

With respect to the County, if the ordinance authorizing the 2004B Swap Agreement is amended in a manner which materially and adversely affects the rights of the Counterparty without the prior written consent of Party A (which consent may not be unreasonably withheld).

With respect to the County, if amounts payable by the County to the Counterparty cease to be general obligations of the County.

In the event that the 2004B Swap Agreement terminates prior to its stated termination date (including as a result of any optional termination by the County), the County may be required to make a termination payment to the Counterparty. Termination payments by the County and the Counterparty will be determined using the Second Method - Market Quotation (as defined in the 2004B Swap Agreement) method at the time of such early termination.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of December 31, 2004, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same* for their term, were as follows:

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

<u>Year Ending</u>	<u>Variable-Rate Bonds</u>		<u>Interest Rate Swaps, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2005	\$ -	\$ 588,327	\$ 561,921	\$ 1,150,248
2006	-	588,327	561,921	1,150,248
2007	-	588,327	561,921	1,150,248
2008	-	588,327	561,921	1,150,248
2009	-	588,327	561,921	1,150,248
2010	-	588,327	561,921	1,150,248
2011	-	588,327	561,921	1,150,248
2012	-	588,327	561,921	1,150,248
2013	-	588,327	561,921	1,150,248
2014	-	588,327	561,921	1,150,248
2015	-	588,327	561,921	1,150,248
2016	500,000	578,277	552,322	1,130,599
2017	520,000	567,825	542,340	1,110,165
2018	535,000	557,072	532,069	1,089,141
2019	555,000	545,916	521,414	1,067,330
2020	575,000	534,359	510,375	1,044,734
2021	2,075,000	492,651	470,540	963,191
2022	2,155,000	449,336	429,168	878,504
2023	2,855,000	391,950	374,358	766,308
2024	2,960,000	332,454	317,533	649,987
2025	3,070,000	270,747	258,595	529,342
2026	3,185,000	206,729	197,450	404,179
2027	3,305,000	140,298	134,001	274,299
2028	3,425,000	71,456	68,248	139,704
2029	3,555,000	-	-	-
	<u>\$ 29,270,000</u>	<u>\$ 11,610,667</u>	<u>\$ 11,089,544</u>	<u>\$ 22,700,211</u>

Prior-Year Defeasance of Debt

In prior years, the County defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At December 31, 2004, \$6.935 million of bonds outstanding are considered defeased.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Business-Type Activity

At December 31, 2004, general long-term debt obligations were as follows:

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
<u>Bonds Payable</u>				
1994 \$19,305,000 General Obligation Bonds (Series of 1994), payable in varying annual installments plus interest of 4.10% to 6.00%, with final maturity scheduled for 2011. These bond proceeds were used to advance refund a 1991 bond issue (proceeds were used to purchase Montage Ski Resort), currently refund 1987 and 1988 notes and finance capital improvements. In 2004, one of these bonds was advance refunded by the series A of 2004.	\$ 8,625,000	\$ -	\$ 8,625,000	\$ -
2004 \$8,625,000 General Obligation Bonds (Series A of 2004), payable in varying annual installments plus interest of 2.000% to 5.000%, with final maturity scheduled for 2015. These bond proceeds were used to refund the 1994 bond issues.	-	9,087,541	-	9,087,541
Deferred amount on Refunding (1991 General Obligation Bonds)	(381,585)	-	(381,585)	-
Deferred amount on Refunding (1994 General Obligation Bonds)	-	(712,697)	-	(712,697)
Total	<u>\$ 8,243,415</u>	<u>\$ 8,374,845</u>	<u>\$ 8,243,415</u>	<u>\$ 8,374,845</u>

Interest paid on these bonds was \$190,113 in 2004.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

The following summarizes the future debt service requirements on the above bonds as of December 31, 2004:

<u>YEAR ENDING DECEMBER 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$ 905,000	\$ 452,785	\$ 1,357,785
2006	950,000	410,250	1,360,250
2007	995,000	364,650	1,359,650
2008	1,040,000	315,895	1,355,895
2009	1,095,000	263,895	1,358,895
2010-2015	<u>3,640,000</u>	<u>434,250</u>	<u>4,074,250</u>
Total	8,625,000	2,241,725	10,866,725
Add: Premium on 2004 Bond Issue	462,541	-	462,541
Less: Deferred amount on refunding	<u>(712,697)</u>	<u>-</u>	<u>(712,697)</u>
	<u>\$ 8,374,845</u>	<u>\$ 2,241,725</u>	<u>\$ 10,616,570</u>

In November 2004, the County issued \$8.625 million in General Obligation Bonds with a varying interest rate of 2% to 5% to advance refund \$8.625 million of outstanding 1994 Series bonds with a varying average interest rate of 4.10% to 6.00%. The net proceeds of \$8.65 million (after payment of \$440,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$463,000 was received for selling the bonds at a premium. Those proceeds were used to fully refund the 1994 Series bonds.

The advance refunding resulted in a deferred loss of \$713,000 for the year ended December 31, 2004, in addition the County increased its aggregate debt service payments by \$1,000,000 over the next 10 years and obtained an economic loss (difference between the present values of the old and new debt service payments) of \$110,000.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

OTHER CHANGES IN LONG-TERM DEBT

	Balance Outstanding January 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, <u>2004</u>
Compensated absences	\$ <u>4,781,832</u>	\$ <u>1,565,527</u>	\$ <u>2,041,013</u>	\$ <u>4,306,346</u>
Capital lease obligations	\$ <u>371,425</u>	\$ <u>-</u>	\$ <u>117,227</u>	\$ <u>254,198</u>

CAPITAL LEASE OBLIGATIONS

Montage Ski Resort has entered into two capital leases for equipment. The first lease agreement requires twenty-five payments of \$26,187 (five payments per year, payable December through April). The lease expires in October 2006. The second lease requires monthly payments of \$298 through October 2007.

The following is a summary of future minimum lease payments required under these capital leases along with the present value of the net minimum lease payments as of December 31, 2004:

<u>YEARS ENDING DECEMBER 31,</u>	<u>AMOUNT</u>
2005	\$ 134,512
2006	134,512
2007	<u>2,980</u>
Total minimum lease payments	272,004
Less amounts representing interest	<u>(17,806)</u>
Present value of net minimum lease payments	<u>\$ 254,198</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Discretely Presented Component Unit

The following is a summary of long-term debt for the discretely presented component units at December 31, 2004:

<u>Lackawanna County Redevelopment Authority</u>	<u>Amount</u>
Term note, due in varying semiannual installments plus interest at 5.0%; maturing 2011	\$ 8,210,403
Term note, due in varying semiannual installments plus interest at 6.5%, maturing 2011	<u>366,945</u>
	<u>8,577,348</u>
 <u>Lackawanna River Basin Sewer Authority</u>	
Guaranteed Sewer Revenue Refunding Bonds, Series 2004, due in varying annual installments plus interest at rates ranging from 2.8% to 5.25%; final maturity scheduled for 2011. Reported net of unamortized discount of \$37,446 and issuance cost of \$156,136.	4,431,418
PENNVEST note, due in monthly installments of \$17,432 including interest at 1%; maturing 2011	<u>1,266,862</u>
	<u>5,698,280</u>
 <u>Lackawanna County Railroad Authority</u>	
Mortgage note, due in annual installments of \$9,250 with no interest; maturing 2012	74,000
Demand note, due upon cessation of operations	<u>750,000</u>
	<u>824,000</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Discretely Presented Component Unit (Cont'd)

<u>Multi-Purpose Stadium Authority of Lackawanna County</u>	<u>Amount</u>
Guaranteed Stadium Revenue Bonds, Series 2002, due in varying annual installments plus interest at an average rate of 2.9%; final maturity scheduled for 2007	4,707,288
Term note, due in monthly payments of \$4,602 including interest at 3.84 %; maturing 2007	123,024
Term note, due in monthly payments of \$9,852 including interest at 2.79%; final maturity scheduled for 2008	401,839
Line of credit note, \$75,000 maximum, interest at national prime rate (5.25% at December 31, 2004)	<u>75,000</u>
	<u>5,307,151</u>
<u>Lackawanna County Performing Arts Center Authority</u>	
General obligation bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.87% to 7.00%; final maturity scheduled for 2018.	3,370,000
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. Reported net of unamortized discount of \$26,351.	<u>3,898,649</u>
	<u>7,268,649</u>
TOTAL	<u>\$ 27,675,428</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Discretely Presented Component Unit (Cont'd)

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>
2005	\$ 4,679,919
2006	3,945,865
2007	3,325,017
2008	2,125,943
2009	2,105,281
Thereafter	<u>11,701,048</u>
Total	27,883,073
Less unamortized discount	<u>(207,645)</u>
Total	<u>\$ 27,675,428</u>

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 bank for each bond issue that among other things, assigns all of SLHWA's rights, title and interest in the facilities under the various bond agreements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 4: LONG-TERM OBLIGATIONS (CONT'D)

Scranton Lackawanna Health and Welfare Authority (Cont'd)

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, 2004, there were twelve general obligation bond issues outstanding and seven notes and mortgages outstanding with an aggregate balance of \$211,403,559.

NOTE 5: 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, 2004, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	432
Terminated plan members entitled to but not yet receiving benefits	91
Active plan members	<u>1291</u>
Total	<u>1814</u>
Number of participating employers	<u>1</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 5: PENSION PLANS (CONT'D)

Funding Policy

Plan members are required to contribute 8% of their annual covered salary. The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, contribution requirements of the Plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings.

Annual Pension Cost

The 2004 annual required contribution, as determined by an actuarial valuation as of December 31, 2004, was \$3,172,042. The County contributed \$3,911,821 in 2004 of which \$739,779 related to the 2003 annual required contribution. The County did not pay the annual required contribution during 2003. The actuarial assumptions included a 7.5% investment rate of return and projected salary increases of 3.5% - 4.5%, using a graduated .25% increase over five years. These assumptions included an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using techniques that smooth the effect of short-term volatility in the market of investments over a five-year period. Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress. Separate determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used.

The County's annual pension cost and net pension obligation for 2004 were as follows:

Annual required contribution	\$ 3,172,042
Interest on net pension obligation	283,131
Adjustment to annual required contribution	<u>(462,358)</u>
Annual pension cost	2,992,815
Contributions made	<u>(3,911,821)</u>
Increase in net pension obligation	(919,006)
Net pension obligation, beginning of year	<u>3,775,083</u>
Net pension obligation, end of year	<u>\$ 2,856,077</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 5: PENSION PLANS (CONT'D)

Annual Pension Cost (Cont'd)

Three-year trend information for the Plan is as follows:

<u>YEAR ENDED DECEMBER 31,</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>% OF PAC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
2002	\$ 1,186,528	0.00%	\$ 1,407,078
2003	\$ 2,368,005	0.00%	\$ 3,775,083
2004	\$ 2,992,815	100.00%	\$ 2,856,077

NOTE 6: CLASSIFICATION OF NET ASSETS

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Assets

This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, Special Revenue Funds, and Specific Projects and Programs as established by the County Commissioners.

Unrestricted Net Assets

This category represents the net assets of the County, which are not restricted for any project or other purpose.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 6: CLASSIFICATION OF NET ASSETS (CONT'D)

In the Fund Financial Statements, reserves segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves are established by actions of the County Commissioners and Management and can be increased, reduced or eliminated by similar actions. As of December 31, 2004, reservations of fund balance are described below:

Reserved for Capital Projects

These reserves were established to reflect the funds legally restricted to be used for capital projects.

Reserved for Other Specific Purposes

These reserves were established to reflect the funds legally restricted to be used in accordance with local, state and Federal governmental laws and regulations.

Reserved for Debt Service

This reserve was established to reflect the funds legally restricted to be used to fund debt service payments.

Reserved for Landfill Trust

This reserve represents the funds designated to be used for conservation purposes under Pennsylvania law.

NOTE 7: PRIOR PERIOD ADJUSTMENTS

The prior period adjustments made in the Health and Human Services Fund and non-major fund increased the beginning fund balance by \$527,731. The restatement of beginning balances was a result of an understatement of grants receivable and revenues in 2003. Beginning net assets in the Government wide financial statements have also been corrected to reflect the prior period adjustment.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 8: DEFICIT FUND/NET ASSET BALANCES

The Enterprise Fund has a net deficit of \$2,456,418 at December 31, 2004 resulting from its inability to generate sufficient operating income to cover its debt service.

The Internal Service Fund has a net deficit of \$1,596,843 at December 31, 2004. 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 has a net deficit of \$6,205,629 at December 31, 2004. The deficit resulted from the financing of the PEI Power Park 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 2011 when the notes mature.

NOTE 9: 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 2004 are as follows:

Balance, December 31, 2003	\$ 2,171,181
Claims incurred	784,969
Claims paid	<u>(668,985)</u>
Balance, December 31, 2004	<u>\$ 2,287,165</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 9: SELF INSURANCE (CONT'D)

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.

NOTE 10: SUBSEQUENT EVENTS

During December 2004, the County authorized the issuance of tax anticipation notes in amounts not to exceed \$15,000,000 for the purpose of meeting current expenses for the first quarter of 2005. The notes are to be completely repaid on or before December 31, 2005.

During February 2005, the County authorized the issuance of \$10,000,000 general obligation bonds (Series A of 2005) for the purpose of financing certain capital projects. The final maturity date shall be no later than December 31, 2010 and include a fixed interest rate not to exceed 8%.

During August 2005, the County authorized the issuance of a tax and revenue anticipation note in amounts not exceeding \$11,000,000 for the purpose of supporting the Lackawanna County Health Care Center. The note will mature on December 15, 2005 and include an interest rate of prime plus one-half a percent.

During November 2005, the County authorized the issuance of \$40,000,000 (Series B of 2005) bonds and \$40,000,000 (Series C of 2005) bonds for the purpose of refunding previously issued general obligation bonds and related costs.

During November 2005, the County authorized the issuance of a \$125,000 general obligation note for the purpose of purchasing certain equipment. The note bears no interest and matures on the last day of the fifth full calendar quarter after receipt of the funds.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 11: COMMITMENTS AND CONTINGENCIES

The County has guaranteed the debt of the following entities and, if necessary, to make payments to the entities to meet their debt obligations. The guaranteed debt of these Authorities at December 31, 2004 is as follows:

Lackawanna County River Basin Sewer Authority	\$ 5,698,280
Lackawanna County Performing Arts Center Authority	7,268,649
Multi-Purpose Stadium Authority of Lackawanna County	<u>5,307,151</u>
 Total debt guaranteed	 <u>\$ 18,274,080</u>

Several lawsuits that could affect the County's financial position are in various stages of litigation. An estimated liability of \$615,500 has been established in the government-wide Statement of Net Assets to provide coverage for the estimated maximum cost to the County. There are other lawsuits and claims in which the County is involved. Based upon the representations of County management, potential claims, if any, against the County resulting from such litigation would not materially affect the financial position of the County

NOTE 12: NEGATIVE BUDGET VARIANCES

In the General Fund, the following negative variances exist due to:

- a Real estate tax transfers allocated to the debt service fund were greater than anticipated.
- b Payments in lieu of taxes - one payment budgeted for in 2004 was not received until 2005 and one payment was not received at all.
- c Grants - \$2.85 million of the grants budgeted in 2004 were not received until 2005. In addition there were tighter regulations on eligibility for several state and federal agencies, as a result the county did not receive the grant funds anticipated.
- d County Charges and Earnings - The amount budgeted as reimbursement from the County Authorities was not received.
- e Interest and rents - earnings were less than anticipated.

COUNTY OF LACKAWANNA, PENNSYLVANIA

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

NOTE 12: NEGATIVE BUDGET VARIANCES (CONT'D)

- f General governmental administrative expenditures were slightly higher than anticipated due to unexpected expenditures which arose during the year.
- g Culture and recreation - expenditures were higher than anticipated due to unexpected expenditures which arose during the year
- h Miscellaneous expenses - The county did not budget for a \$12,000,000 tax anticipation note.
- i Operating transfers out - The county did not budget for any operating transfers except for the transfer of revenue into the debt service fund used for debt payments.

In the Liquid Fuels Fund, the following negative variances exist due to:

- a The liquid fuels fund did not spend the amount of money originally anticipated therefore the amount reimbursed by the state was lower than budgeted.

In the Debt Service Fund, the following negative variances exist due to:

- a The refinance of debt principal was not considered when preparing the budget.
- b Debt interest - The County incurred more interest than anticipated.
- c Operating transfers-out - The county did not budget for the proceeds of new debt which were used to refinance Montage debt as well as fund capital improvements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCES-GENERAL, LIQUID FUELS AND DEBT SERVICE FUNDS-
BUDGET AND ACTUAL (BUDGETARY CASH BASIS)

UNAUDITED

YEAR ENDED DECEMBER 31, 2004

	General Fund			Liquid Fuels Fund			Debt Service Fund		
	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)	Budget	Actual	Variance (Unfavorable)
REVENUES:									
Taxes	\$ 33,704,711	\$ 32,800,657	\$ (904,054)	\$ -	\$ -	\$ -	\$ 3,970,956	\$ 5,462,027	\$ 1,491,071
Payments in lieu of taxes	278,455	158,429	(120,026)	-	-	-	-	-	-
Licenses and permits	20,000	14,424	(5,576)	-	-	-	-	-	-
Grants	22,354,464	17,477,994	(4,876,471)	2,600,000	1,197,676	(1,402,324)	-	-	-
County charges and earnings	34,528,776	31,727,348	(2,801,428)	-	-	-	-	-	-
Fines and forfeits	75,000	96,512	21,512	-	-	-	-	-	-
Interest and rents	378,700	247,980	(130,720)	27,500	6,082	(21,418)	100	25,004	24,904
Contributions and other	6,591,640	15,331,421	8,739,780	10,000	18,169	8,169	992,173	4,042	(988,131)
Total Revenues	97,931,746	97,854,763	(76,983)	2,637,500	1,221,927	(1,415,573)	4,963,229	5,491,073	527,844
EXPENDITURES:									
General government - administrative	11,732,412	13,228,022	(1,495,610)	-	-	-	-	-	-
General government - judicial	10,424,239	10,820,963	(396,724)	-	-	-	-	-	-
Public safety - corrections	23,894,408	22,405,654	1,488,754	-	-	-	-	-	-
Public works and enterprises	5,377,465	4,871,700	505,765	2,738,380	1,072,299	1,666,081	-	-	-
Health and human services	32,605,964	30,578,933	2,027,031	-	-	-	-	-	-
Culture and recreation	3,098,153	3,880,881	(782,728)	-	-	-	-	-	-
Conservation and development	994,645	746,634	248,011	-	-	-	-	-	-
Miscellaneous expense	15,826,423	29,854,219	(14,027,796)	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	3,494,500	3,494,500
Capital outlay	-	-	-	-	-	-	-	-	-
Total Expenditures	103,953,709	116,387,006	(12,433,297)	2,738,380	1,072,299	1,666,081	-	3,494,500	3,494,500
OTHER FINANCING SOURCES (USES):									
Proceeds from long-term debt	1,900,000	20,145,000	18,245,000	-	-	-	1,850,000	43,590,000	41,740,000
Proceeds from original issuance premium	-	-	-	-	-	-	-	542,179	-
Operating transfers-in	-	988,758	988,758	-	-	-	1,818,600	983,553	(835,047)
Debt principal	-	-	-	-	-	-	(5,584,888)	(9,563,730)	(3,978,842)
Debt interest	-	-	-	-	-	-	(3,014,705)	(4,090,727)	(1,076,022)
Operating transfers-out	-	(638,280)	(638,280)	-	-	-	-	(30,500,887)	(30,500,887)
Total Other Financing Sources (Uses), net	1,900,000	20,495,478	18,595,478	-	-	-	(4,930,993)	950,388	5,891,381
Net change in cash balances	(4,121,963)	1,963,235	6,085,198	(100,880)	149,628	250,508	32,236	2,956,961	2,924,725
Cash balance, beginning	4,121,963	4,388,747	266,784	691,655	701,257	9,602	29,062	1,961,948	1,932,886
Cash balance, ending	\$ -	\$ 6,351,982	\$ 6,351,982	\$ 590,775	\$ 850,885	\$ 260,110	\$ 61,298	\$ 4,918,909	\$ 4,857,611

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. RECONCILIATION OF BUDGETARY CASH BASIS TO GAAP BASIS

A reconciliation of the County's budgetary cash basis to GAAP basis for 2004 is as follows:

	<u>General Fund</u>	<u>Liquid Fuels</u>	<u>Debt Service</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary cash basis)	\$ 19,632,235	\$ 149,628	\$ 2,924,725
Reversal of prior year:			
Receivables	(15,596,172)	(589,989)	-
Liabilities	28,497,967	203,553	-
Record current year:			
Receivables	15,749,639	589,891	-
Liabilities	<u>(17,197,967)</u>	<u>(576,274)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 31,085,702</u>	<u>\$ (223,191)</u>	<u>\$ 2,924,725</u>