

COUNTY OF LACKAWANNA, PENNSYLVANIA

**FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express 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, 2005, which represent .5% of the total assets and 8% of the total revenues of the governmental activities and 14% of the total assets and 19% of total revenues of the Health and Human Services Fund. 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 Lackawanna County Area Agency on Aging is based on the report of the other auditors. In addition, we did not audit the financial statements of the Pension Trust Fund for the year ended December 31, 2005, which represents 96% 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 audit 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.

JONES KOHANSKI & CO., LLP

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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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, 2005, 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.

The Management's Discussion and Analysis on pages III through XVIII, the budgetary comparison information on page 60 and the Lackawanna County Pension Fund schedules on page 61, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Jones Kohnschi & Co., LLP

Moosic, Pennsylvania
January 30, 2006

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

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, 2005. 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 \$29,799,119 at December 31, 2005. Governmental activities accounted for \$26,614,250 of this deficit; the business-type activity accounted for the remaining \$3,184,869.

In total, revenues exceeded expenses by \$1,862,991 in 2005. The Governmental activities revenues exceeded expenses by \$2,591,442 while the business-type activities expenses exceeded revenues by \$728,451.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 and 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.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because of 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 governmental funds that 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 66.

The basic fund financial statements can be found on pages 4 and 5 of this report.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
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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 page 9-12 of this report.

FIDUCIARY FUNDS

The County accounts for the assets held under trust or in an agent capacity in fiduciary funds. Assets held in trust in the County retirement plan are accounted for in the Pension Trust fund. Assets held in a custodial or agent function are accounted for in the Agency Fund.

Fiduciary funds are not reported in the government-wide financial statements since they are not available to support the County operations.

The basic fiduciary fund financial statements can be found on pages 13-14 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-65 of this report.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

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 and the County Home Rule Charter. The County budget for the year 2005 was prepared on a cash basis. A budget to actual statement for the General Fund, Liquid Fuels Fund and Debt Service fund is included on page 67 of this report.

Actual figures in this report show the actual fund balance on a budgetary basis in the General Fund of \$2,994,207 at December 31, 2005.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

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, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current and other assets	\$ 71,435,866	\$ 66,676,948
Capital Assets	<u>79,697,602</u>	<u>68,409,919</u>
	<u>\$ 151,133,468</u>	<u>\$ 135,086,867</u>
<u>LIABILITIES AND NET DEFICIT</u>		
Current liabilities	\$ 30,820,848	\$ 28,782,246
Long-term and other liabilities	<u>146,926,870</u>	<u>135,622,220</u>
Total liabilities	<u>177,747,718</u>	<u>164,404,466</u>
NET DEFICIT		
Invested in capital assets, net of related debt	(3,628,572)	(5,460,919)
Restricted	32,193,785	36,785,580
Unrestricted	<u>(55,179,463)</u>	<u>(60,642,260)</u>
Total net deficit	<u>(26,614,250)</u>	<u>(29,317,599)</u>
	<u>\$ 151,133,468</u>	<u>\$ 135,086,867</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005

CONDENSED STATEMENT OF NET ASSETS
BUSINESS TYPE ACTIVITY (MONTAGE SKI-RESORT)
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current and other assets	\$ 1,283,630	\$ 919,084
Capital Assets	<u>5,943,164</u>	<u>5,504,751</u>
	<u>\$ 7,226,794</u>	<u>\$ 6,423,835</u>
<u>LIABILITIES AND NET DEFICIT</u>		
Current liabilities	\$ 2,476,420	\$ 587,131
Long-term and other liabilities	<u>7,935,243</u>	<u>8,293,122</u>
Total liabilities	<u>10,411,663</u>	<u>8,880,253</u>
NET DEFICIT		
Invested in capital assets, net of related debt	(1,529,270)	(2,683,649)
Unrestricted	<u>(1,655,599)</u>	<u>227,231</u>
Total net deficit	<u>(3,184,869)</u>	<u>(2,456,418)</u>
	<u>\$ 7,226,794</u>	<u>\$ 6,423,835</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005

CONDENSED STATEMENT OF GOVERNMENTAL ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Program revenues:		
Charges for services	\$ 41,185,013	\$ 36,975,036
Operating grants and contributions	41,778,484	41,656,144
Capital grants and contributions	4,831,296	5,030,023
General revenues:		
Taxes levies for general purpose, net	58,192,694	39,436,036
Contributions and other	5,405,923	980,489
Transfers	<u>(1,167,279)</u>	<u>856,908</u>
Total revenues	<u>150,226,131</u>	<u>124,934,636</u>
EXPENSES:		
General government	15,166,737	14,787,089
Judicial	17,376,067	15,206,216
Corrections	28,169,537	26,940,387
Public works	7,207,710	5,224,575
Human services	54,913,835	53,677,619
Culture and recreation	9,099,665	5,387,021
Conservation and development	3,707,776	6,120,716
Other	5,567,406	3,162,047
Interest-long term debt	<u>6,425,956</u>	<u>6,175,239</u>
Total expenses	<u>147,634,689</u>	<u>136,680,909</u>
CHANGE IN NET ASSETS	<u>2,591,442</u>	<u>(13,460,089)</u>
NET DEFICIT, BEGINNING, AS PREVIOUSLY REPORTED	(29,317,599)	(15,857,510)
PRIOR PERIOD ADJUSTMENT	<u>111,907</u>	<u>-</u>
NET DEFICIT, AS RESTATED	<u>(29,205,692)</u>	<u>(15,857,510)</u>
NET DEFICIT, ENDING	<u>\$ (26,614,250)</u>	<u>\$ (29,317,599)</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005

CONDENSED STATEMENT OF BUSINESS TYPE ACTIVITIES
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUES:		
Program revenues:		
Charges for services	\$ 2,904,081	\$ 3,299,829
Capital grants	-	1,801
Other	1,756	-
Transfers	<u>1,167,279</u>	<u>856,908</u>
Total revenues	4,073,116	4,158,538
EXPENSES:		
Ski resort	<u>4,801,567</u>	<u>4,205,265</u>
CHANGE IN NET ASSETS	(728,451)	(46,735)
NET DEFICIT, BEGINNING	<u>(2,456,418)</u>	<u>(2,409,683)</u>
NET DEFICIT, ENDING	<u>\$ (3,184,869)</u>	<u>\$ (2,456,418)</u>

GOVERNMENTAL ACTIVITIES

The increase of \$2,591,442 was due to an increase in tax millage in the County to alleviate the County structural deficit.

BUSINESS TYPE ACTIVITY

The decrease in net assets of (\$728,451) was due to the continuing operating losses at the County Ski Resort. Without the transfer of \$1,167,279 from the capital projects fund and debt service fund, the operating loss at the Ski Resort was \$1,895,730.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

FINANCIAL ANALYSIS OF THE FUNDS

GENERAL FUND (MAJOR FUND)

The following represents a summary of General Fund revenue, by source, along with changes from 2004.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Taxes	\$ 55,818,536	\$ 38,436,653	\$ 17,381,883	45.22%
Grants	16,608,812	17,337,997	(729,185)	-4.29%
County charges and earnings	15,048,659	10,965,688	4,082,971	37.20%
Contribution and other	978,551	991,643	(13,092)	-1.30%
Transfers-in	<u>428,820</u>	<u>4,157,963</u>	<u>(3,729,143)</u>	<u>-89.87%</u>
	<u>\$ 88,883,378</u>	<u>\$ 71,889,944</u>	<u>\$ 16,993,434</u>	<u>23.60%</u>

Tax revenue increased because of a tax increase in county millage in 2005. Of the \$55,818,536 in tax revenues, approximately \$10,000,000 was transferred to the Culture and Education Fund and Debt Services Fund.

The actual increase in General Fund revenues after the transfer of approximately \$10,000,000 to the Debt Service and Culture and Education Funds is approximately \$7,000,000

Transfers-in showed a large decrease because 2004's figures included debt proceeds recorded in the Debt Service Fund which were used to pay off prior year General Fund liabilities.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

GENERAL FUND (MAJOR FUND) (CONT'D)

The following represents a summary of General Fund expenditures, by function along with changes from 2004.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
General government	\$ 13,938,202	\$ 12,488,120	\$ 1,450,082	11.60%
Judicial	14,356,715	12,742,901	1,613,814	12.70%
Corrections	23,255,471	23,409,419	(153,948)	-.01%
Public works	289,471	550,411	(260,940)	47.40%
Human services	15,593,099	16,206,976	(613,877)	3.80%
Culture and recreation	5,463,114	4,343,929	1,119,185	25.80%
Conservation/Development	598,171	747,778	(149,607)	-20.00%
Miscellaneous	891,228	851,434	39,794	-4.70%
Transfers-out	<u>11,671,249</u>	<u>7,227,274</u>	<u>4,443,975</u>	<u>61.50%</u>
	<u>\$ 86,056,720</u>	<u>\$ 78,568,242</u>	<u>\$ 7,488,478</u>	<u>9.50%</u>

Overall the expenses increased by \$7,488,478, but of this increase approximately \$4,000,000 is included under transfers-out. This is attributed to an increase of \$3,000,000 to Debt Service from General Fund tax revenues and over \$1,000,000 to a new Culture and Education fee instituted in 2005. Without the increase of \$4,000,000 in Transfers-out, overall expenses increased \$3,488,478 or 4.44%

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 2005 were \$38,301,128 versus \$36,951,879 in 2004 or an increase of \$1,349,249 or 3.7%. The main reason for the increase was the increase in state funding to fund these services.

Total expenditures including transfers in 2005 were \$37,903,474 versus \$36,156,715 in 2004, an increase of \$1,746,759 or 4.8%.

The increase in expenditures is due to the increases in human services and was offset by the increase in revenues of \$1,349,249 and fund balance.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
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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 or 2005 and the investment of funds yielded \$124,288 in 2005. The balance in the funds at December 31, 2005 was \$6,459,288.

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.

The County made \$5,907,283 in principal payments on outstanding debt during 2005. The County issued \$10,000,000 in General Obligation bonds (Series A) for construction and renovations at the Lackawanna County Courthouse and the Lackawanna County Stadium.

The County also issued \$38,650,000 in General Obligation Bonds (Series B), which were used to refund the 1997 bond issue and a portion of the 2002 bond issue.

The County debt outstanding at December 31, 2005 is \$141,044,426.

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 \$1,895,730 before transfers-in to the fund from the County Capital Projects Fund and Debt Service 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. This fund's total assets were of \$825,740 as of December 31, 2005.

COUNTY OF LACKAWANNA, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
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INTERNAL SERVICE FUND (MAJOR) (CONT'D)

This amount adheres to the state minimum level and as a result the Fund has a deficit fund balance of \$1,190,288 as of December 31, 2005. This is a decrease of \$406,555 in the fund balance of \$1,596,843 reported at December 31, 2004.

PENSION TRUST FUND

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan, which amounted to \$111,332,719 at December 31, 2005. This represented an increase of \$7,484,005 over the assets reported at December 31, 2004.

The required contribution to the County Pension Plan for 2005 was \$2,756,065. No contribution was made to the Pension Plan in 2005. A payment of \$2,856,077 was made to the pension plan on December 27, 2006.

AGENCY FUND

The Agency Fund accounts for assets held by the County in a custodial function for individuals or other governments. The County held approximately \$4.2 million in that role as of December 31, 2005.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

CAPITAL ASSETS

The County investment in capital assets at December 31, 2005 is summarized below.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES:				
Capital assets, not being depreciated:				
Land	\$ 1,071,626	\$ 42,000	\$ -	\$ 1,113,626
Land - Trolley Museum	250,000	-	-	250,000
Construction-in-progress	<u>3,504,040</u>	<u>12,599,031</u>	<u>-</u>	<u>16,103,071</u>
 Total capital assets, not being depreciated	 <u>4,825,666</u>	 <u>12,641,031</u>	 <u>-</u>	 <u>17,466,697</u>
 Capital assets, being depreciated:				
Infrastructure	30,759,354	-	-	30,759,354
Investment in Airport	5,884,198	538,777	-	6,422,975
Buildings and Improvements	57,290,850	575,397	(977,688)	56,888,559
Buildings and Improvements- Trolley Museum	3,734,784	-	-	3,734,784
Machinery and Equipment	24,497,535	1,037,781	-	25,535,316
Machinery and Equipment- Trolley Museum	<u>737,700</u>	<u>-</u>	<u>-</u>	<u>737,700</u>
 Total capital assets, being depreciated	 <u>122,904,421</u>	 <u>2,151,955</u>	 <u>(977,688)</u>	 <u>124,078,688</u>
 Less: Accumulated depreciation:				
Infrastructure	27,223,759	332,134	-	27,555,893
Investment in Airport	1,973,712	89,550	-	2,063,262
Buildings and Improvements	16,338,893	1,444,307	(515,669)	17,267,531
Buildings and Improvements- Trolley Museum	513,533	93,370	-	606,903
Machinery and Equipment	12,999,628	2,225,115	-	15,224,743
Machinery and Equipment- Trolley Museum	<u>270,643</u>	<u>49,133</u>	<u>-</u>	<u>319,776</u>
 Total accumulated depreciation	 <u>59,320,168</u>	 <u>4,233,609</u>	 <u>(515,669)</u>	 <u>63,038,108</u>
 Total capital assets, being depreciated, net	 <u>63,584,253</u>	 <u>(2,081,654)</u>	 <u>(462,019)</u>	 <u>61,040,580</u>
 Governmental activities capital assets, net	 <u>\$ 68,409,919</u>	 <u>\$ 10,559,377</u>	 <u>\$ (462,019)</u>	 <u>\$ 78,507,277</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

CAPITAL ASSETS (CONT'D)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
BUSINESS-TYPE ACTIVITIES:			
Capital assets, not being depreciated:			
Land	\$ 1,404,000	\$ -	\$ 1,404,000
Capital assets, being depreciated:			
Land Improvements	7,533,605	914,311	8,447,916
Buildings and Improvements	3,526,764	30,530	3,557,294
Machinery and Equipment	7,554,478	333,032	7,887,510
Total capital assets, being depreciated	<u>18,614,847</u>	<u>1,277,873</u>	<u>19,892,720</u>
Less: Accumulated depreciation:			
Land Improvements	6,478,331	617,015	7,095,346
Buildings and Improvements	2,370,138	85,164	2,455,302
Machinery and Equipment	5,665,627	137,281	5,802,908
Total accumulated depreciation	<u>14,514,096</u>	<u>839,460</u>	<u>15,353,556</u>
Total capital assets, being depreciated, net	<u>4,100,751</u>	<u>438,413</u>	<u>4,539,164</u>
Business-type activities capital assets, net	<u>\$ 5,504,751</u>	<u>\$ 438,413</u>	<u>\$ 5,943,164</u>

LONG TERM DEBT

As of December 31, 2005 the County's net general obligation debt was \$148,807,993. This amount is approximately 49% of the County legal limit as calculated in 2005. Approximately 6.3 million in principal of this debt is scheduled for payment in 2006.

ECONOMIC CONDITION AND OUTLOOK

The County had large deficits in 2002, 2003 and 2004. On December 1, 2004, the County issued \$20,145,000 in general obligation bonds to finance the unfunded debt related to the accumulated deficits from 2002, 2003 and 2004.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2005**

ECONOMIC CONDITION AND OUTLOOK (CONT'D)

Lackawanna County increased its real estate tax millage in 2005 by 14 mills. This was done to increase funding to the library system and to create a Culture and Education Fund. The millage was also increased to supply funding for the unfunded debt issue (\$20,145,000) and to correct the County's structural deficit.

In 2005 the County acquired and began implementation of a new Financial Accounting System. This system has allowed administrators to have a better grasp on the County's financial condition and thereby provide services more efficiently throughout the County's many varied departments.

The new system has provided the County the ability to view its finances on the accrual basis, which is the manner in which most businesses operate. During 2006, the implementation continued with the Payroll, Human Resources, and Budget modules being brought on line. The Fixed Asset and Pension applications are scheduled to be fully operational during 2007.

The County generated the first surplus in five (5) years during 2005. With this in mind and the fact that the structural deficit of the County has been reduced, the County decreased real estate tax millage by 5% or 2 mills.

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

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.