

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	437
Terminated plan members entitled to but not yet receiving benefits	108
Active plan members	<u>1321</u>
Total	<u>1866</u>
Number of participating employers	<u>1</u>

Prior to December 31, 1987, as a condition of employment, each employee of Lackawanna County was required to contribute 7% of their salary to the Plan. As of January 1, 1988, each new employee is required to contribute eight percent (8%) of their salary to the Plan. Members in the Plan prior to January 1, 1988 may continue to contribute seven percent (7%) or elect the option to contribute eight percent (8%). Employee contributions to the Plan for 2005 amounted to \$3,580,369. Outstanding accumulated employee contributions for 2005 were \$40,822,472, including interest credited. The accumulated amount is included in net assets held in trust for pension benefits at December 31, 2005.

The Lackawanna County Retirement Fund funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the Entry Age Funding Method. Prior to January 1, 2005, the Aggregate Method was used.

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 5: PENSION PLANS (CONT'D)

The annual required contributions are determined through actuarial valuations performed at December 31, 2005. For 2005, the required contributions amounted to \$2,756,065. No contribution was made by the County in 2005.

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.

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, 2005, 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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 6: CLASSIFICATION OF NET ASSETS (CONT'D)

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 \$111,907. The restatement of beginning balances was a result of an understatement of grants receivable and revenues in 2004 and an understatement of accounts payable and expenses in 2005. Beginning net assets in the Government-wide financial statements have also been corrected to reflect the prior-period adjustment.

NOTE 8: DEFICIT FUND/NET ASSET BALANCES

The Enterprise Fund has a net deficit of \$3,184,869 at December 31, 2005 resulting from its inability to generate sufficient operating income to cover its debt service.

The Internal Service Fund has a net deficit of \$1,190,288 at December 31, 2005. 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 \$5,910,696 at December 31, 2005. 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.

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
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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 2005 are as follows:

Balance, December 31, 2004	\$ 2,287,165
Claims incurred	709,050
Claims paid	<u>(980,188)</u>
Balance, December 31, 2005	<u>\$ 2,016,027</u>

The County has recorded an estimated liability for known claims, based on estimates of the ultimate cost of reported claims (including future claims adjustment expenses) as well as claims that have been incurred but not reported, using amounts as determined by an independent actuary. Adjustments to these claim liabilities are charged or credited to expense in the periods in which they are made.

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
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NOTE 10: SUBSEQUENT EVENTS

During May 2006, the County authorized the issuance of \$41,365,000 general obligation bonds (Series A of 2006) for the purpose of refunding the General Obligation Bond, Series A of 2005 and to finance certain capital projects. The final maturity date shall be no longer than September 1, 2029 and include an interest rate equal to the weekly interest rate as determined by the Remarketing Agent.

During November of 2006, the County sold all of the assets related to the enterprise fund (Montage), except for the reservoir, to Snow Mountain, LLP for \$5,100,000. The proceeds from the sale were invested and the County intends on using the funds to make a pension contribution.

During January, 2006, the County issued tax anticipation notes in the amounts of \$8,500,000. These notes were repaid in full by December 31, 2006.

NOTE 11: NEGATIVE BUDGET VARIANCES

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

- a Payments in lieu of taxes - one payment budgeted for in 2005 was not received.
- b Licenses and Permits - These funds were received but were recorded as departmental earnings due to a change in revenue classification implemented by the County in 2005.
- c Grants - Grant revenues were slightly less than anticipated due to reduced funding from several state and Federal agencies.
- d County Charges and Earnings - Earnings were less than anticipated.
- e Fines and Forfeitures - The county did not collect the amount of bail forfeitures anticipated.
- f Contributions and other revenues - These funds were received but were recorded in different revenue categories to more accurately classify the receipts.
- g Health and human services - The General Fund did not receive a reimbursement from the Health and Human Services Fund until 2006 for payroll expenditures.

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 11: NEGATIVE BUDGET VARIANCES (CONT'D)

- h Culture and recreation - expenditures were higher than anticipated due to unexpected expenditures which arose during the year for the Stadium Authority.

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 Taxes - The debt service fund did not need the general fund to transfer the full amount of taxes budgeted in order to meet the 2005 debt payment requirements.
- b Miscellaneous expense - The County did not budget for the bond issue cost related to the new bonds.
- c Debt service - The County did not budget for the payment of bonds that were refunded by the 2005 bond issues.

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, 2005

	General Fund			Liquid Fuels Fund			Debt Service Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:									
Taxes	\$ 40,934,270	\$ 43,850,488	\$ 2,916,218	\$ -	\$ -	\$ -	\$ 11,528,550	\$ 9,903,063	\$ (1,625,487)
Payments in-lieu of taxes	194,705	159,438	(35,267)	-	-	-	-	-	-
Licenses and permits	15,000	-	(15,000)	-	-	-	-	-	-
Grants	17,987,930	17,680,788	(307,142)	2,105,000	1,955,713	(149,287)	-	-	-
County charges and earnings	14,782,330	14,297,548	(484,782)	-	-	-	-	-	-
Fines and forfeits	50,000	20,836	(29,164)	-	-	-	-	-	-
Interest and rents	379,400	640,107	260,707	27,500	26,642	(858)	-	165,465	165,465
Contributions and other	521,560	111,045	(410,515)	10,000	10,484	484	-	5,590	5,590
Total Revenues	74,865,195	76,760,250	1,895,055	2,142,500	1,992,839	(149,661)	11,528,550	10,074,118	(1,454,432)
EXPENDITURES:									
General government - administrative	12,630,842	11,547,446	1,083,396	-	-	-	-	-	-
General government - judicial	15,664,687	14,497,333	1,167,354	-	-	-	-	-	-
Public safety and corrections	27,121,172	26,638,670	482,502	-	-	-	-	-	-
Public works and enterprises	1,061,185	307,451	753,734	2,557,039	1,852,997	704,042	-	-	-
Health and human services	16,932,495	18,712,843	(1,780,348)	-	-	-	-	-	-
Culture and recreation	3,501,714	5,184,778	(1,683,064)	-	-	-	-	-	-
Conservation and development	862,955	577,748	285,207	-	-	-	-	-	-
Miscellaneous expense	3,138,459	1,947,419	1,190,740	-	-	-	11,491,819	2,010,108	(2,010,108)
Debt service	-	-	-	-	-	-	-	49,026,151	(37,534,332)
Total Expenditures	80,913,209	79,413,687	1,499,522	2,557,039	1,852,997	704,042	11,491,819	51,036,259	(39,544,440)
OTHER FINANCING SOURCES (USES):									
Proceeds from long-term debt	-	-	-	-	-	-	-	40,050,000	40,050,000
Operating transfers-in	-	-	-	-	-	-	-	597,418	597,418
Total Other Financing Sources (Uses), net	-	-	-	-	-	-	-	40,647,418	40,647,418
Net change in cash balances	(6,048,014)	(3,357,775)	2,690,239	(414,539)	139,841	554,380	36,731	(314,723)	(351,454)
Cash balance, beginning	6,351,982	6,351,982	-	850,885	850,885	-	4,918,909	4,918,909	-
Cash balance, ending	\$ 303,968	\$ 2,994,207	\$ 2,690,239	\$ 436,346	\$ 990,726	\$ 554,380	\$ 4,955,640	\$ 4,604,186	\$ (351,454)

See independent auditors report

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
UNAUDITED
DECEMBER 31, 2005

1. RECONCILIATION OF BUDGETARY CASH BASIS TO GAAP BASIS

A reconciliation of the County's budgetary cash basis to GAAP basis for 2005 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)	\$ (3,357,775)	\$ 139,841	\$ (314,723)
Reversal of prior year:			
Receivables	(15,749,639)	(589,891)	-
Liabilities	17,197,967	576,274	-
Record current year:			
Receivables	20,388,839	-	861,503
Liabilities	<u>(15,650,735)</u>	<u>(127,686)</u>	<u>(1,557,689)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 2,828,657</u>	<u>\$ (1,462)</u>	<u>\$ (1,010,909)</u>

See independent auditors report

COUNTY OF LACKAWANNA

**REQUIRED SUPPLEMENTAL PENSION INFORMATION
UNAUDITED
DECEMBER 31, 2005**

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
01/01/05	\$ 94,225,794	\$ 106,277,698	\$ 12,051,904	88.7%	\$ 43,311,008	27.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
December 31, 2000	\$ -	0%
December 31, 2001	\$ 309,919	0%
December 31, 2002	\$ 1,197,585	0%
December 31, 2003	\$ 2,442,365	0%
December 31, 2004	\$ 3,172,042	100%
December 31, 2005	\$ 2,756,065	0%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2005
Actual cost method	Entry Age
Asset valuation method	5-Year Smoothed Market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	3.75% - 4.5%; graduated .25% increments over 3 years
*Includes inflation of 3.00%	

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