

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	PRIMARY GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and equivalents	\$ 19,024,910	\$ 5,432,765
Restricted cash		4,538,175
Investments	7,732,452	2,309,148
Restricted investments		26,633,546
Accounts receivable, net		157,533,369
Inventory	26,221	
Due from other governments	12,614,712	589,455
Prepaid expenses	113,697	
Taxes receivable, net	8,134,677	360,739
Other assets		261,987
Total current assets	47,646,669	197,659,184
CAPITAL ASSETS, NET	85,206,804	57,360,510
CASH HELD FOR CAPITAL PROJECTS	37,043,770	
OTHER NONCURRENT ASSETS		2,048,913
DEFERRED CHARGES	5,720,123	
Total assets	\$ 175,617,366	\$ 257,068,607
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 21,565,203	\$ 1,896,982
Accrued expenses	2,025,588	596,976
Current portion:		
Bond and notes payable	5,425,998	3,519,478
Capital lease obligations	131,044	
Compensated absences	436,976	464,121
Due to component units	702,741	
Due to primary government		12,373,074
Deferred revenues	772,501	2,855,913
Escrow liabilities		20,902,550
Claims payable	2,339,925	
Other liabilities		214,362
Total current liabilities	33,399,976	42,823,456
NONCURRENT LIABILITIES:		
Bonds and notes payable	170,864,605	15,247,916
Capital lease obligation	1,215,234	
Nonrecourse debt issues		153,550,650
Net pension obligation	4,676,271	
Compensated absences	2,943,118	663,861
Total liabilities	213,099,204	212,285,883
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	(32,283,722)	44,822,877
Restricted	10,429,807	11,834,487
Unrestricted	(15,627,923)	(11,874,640)
Total net assets (deficit)	(37,481,838)	44,782,724
Total liabilities and net assets (deficit)	\$ 175,617,366	\$ 257,068,607

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS - TYPE ACTIVITY	
PRIMARY GOVERNMENT:							
Governmental activities:							
General government - administrative	\$ (27,376,772)	\$ 5,049,062	\$ 2,588,669		\$ (19,739,041)		\$ (19,739,041)
General government - judicial	(16,718,724)	7,118,988	1,515,345		(8,084,391)		(8,084,391)
Public safety - corrections	(27,538,924)	15,857,717	658,259		(11,022,948)		(11,022,948)
Public works and enterprises	(7,999,890)	20,460	32,990,788	\$ 4,190,432	(2,466,022)		(2,466,022)
Health and Human Services	(54,492,003)	20,436,402		461,960	(602,853)		(602,853)
Culture and recreation	(10,812,222)	2,057,553			(8,754,669)		(8,754,669)
Community and economic development	(4,097,056)	1,722,240	2,335,186		(39,630)		(39,630)
Unallocated depreciation	(4,257,410)				(4,257,410)		(4,257,410)
Interest on long-term debt	(5,384,458)				(5,384,458)		(5,384,458)
Total Governmental Activities	(158,677,459)	52,262,422	41,411,223	4,652,392	(60,351,422)		(60,351,422)
Business - Type Activities,							
Enterprise Fund	(3,217,918)	1,416,644				\$ (1,801,274)	(1,801,274)
Total primary government	(161,895,377)	53,679,066	41,411,223	4,652,392	(60,351,422.00)	(1,801,274.00)	(62,152,696.00)
COMPONENT UNITS:							
Scranton Lackawanna Health and Welfare Authority	\$ (19,169,952)	\$ 73,286					\$ (19,096,666)
Lackawanna County Library System	(5,093,701)	250,000					(3,397,775)
Lackawanna County Redevelopment Authority	(1,137,373)	135,475		\$ 173,250			(1,001,898)
Lackawanna County River Basin Sewer Authority	(6,737,726)	6,072,682		1,539,722			874,678
County of Lackawanna Transit System Authority	(6,474,071)	2,218,865	2,624,539	1,814,563			183,896
Multi-Purpose Stadium Authority of Lackawanna County	(4,854,778)	3,285,070					(1,569,708)
Lackawanna County Performing Arts Center Authority	(890,384)	1,193,275					302,891
Total component units	(44,357,985)	13,093,178	4,032,690	3,527,535			(23,704,582)
General revenues and transfers:							
Taxes levied for general purposes, net					53,753,995		53,753,995
Rental income					2,871,910		2,871,910
Interest revenue					1,067,918		1,067,918
Contributions and other revenue					784,322		784,322
Gain on sale					4,703,930		4,703,930
Transfers							
Total general revenues					54,881,175		54,881,175
Change in net assets					(3,674,551)		(3,674,551)
Net assets (deficit), beginning, as previously reported					(29,799,119)		(29,799,119)
Prior period adjustments, net					(4,008,168)		(4,008,168)
Net assets (deficit), beginning, as restated					(33,807,287)		(33,807,287)
Net assets (deficit), ending					(37,481,838)		(37,481,838)

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006
MAJOR FUNDS

	GENERAL FUND	HEALTH AND HUMAN SERVICES FUND	LANDFILL TRUST FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUNDS	TOTAL
ASSETS							
Cash and cash equivalents	\$ 6,893,142	\$ 2,152,994		\$2,415,821	\$37,043,770	\$5,427,594	\$53,933,321
Investments			\$6,733,518				6,733,518
Other receivables						26,221	26,221
Due from other funds	5,736,623			262,750	2,907,399	806,819	9,713,591
Due from other governments	6,097,003	3,236,193			940,095	2,341,421	12,614,712
Taxes receivable, net	8,134,677						8,134,677
TOTAL	\$26,861,445	\$ 5,389,187	\$6,733,518	\$2,678,571	\$40,891,264	\$8,602,055	\$91,156,040
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable	\$ 7,884,811	\$ 2,862,091		\$ 11,075	\$ 8,072,398	\$2,734,828	\$21,565,203
Accrued liabilities	500,798	426,249				44,311	971,358
Due to other funds	3,682,315	2,336,275				1,541,118	7,559,708
Due to component units	551,959					150,782	702,741
Deferred revenue	8,183,446	199,299					8,382,745
Total liabilities	20,803,329	5,823,914		11,075	8,072,398	4,471,039	39,181,755
FUND BALANCES (DEFICIT):							
Unreserved	6,058,116	(434,727)					5,623,389
Reserved			\$6,733,518	2,667,496	32,818,866	4,131,016	46,350,896
Total fund balances	6,058,116	(434,727)	6,733,518	2,667,496	32,818,866	4,131,016	51,974,285
TOTAL	\$26,861,445	\$ 5,389,187	\$6,733,518	\$2,678,571	\$40,891,264	\$8,602,055	\$91,156,040

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 51,974,285
Amounts reported for governmental activities in the statement of net assets are different because:		
Net assets (deficit) of the Internal Service Fund are included in governmental activities since they primarily benefit the County's governmental activities.		(1,245,819)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in government funds.		85,206,804
Deferred revenue in the government fund balance sheet includes accounts receivable balances that were not considered a current resource.		7,610,244
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net assets		5,720,123
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of		
Notes and bonds payable	\$ 176,290,603	
Net pension obligation	4,676,271	
Capital lease obligation	1,346,278	
Compensated absences	<u>3,380,094</u>	
		(185,693,246)
Accrued interest payable is included in the statement of net assets.		<u>(1,054,229)</u>
TOTAL DEFICIT - GOVERNMENTAL ACTIVITIES		\$ <u>(37,481,838)</u>

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	MAJOR FUNDS					NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	HEALTH AND HUMAN SERVICES FUNDS	LANDFILL TRUST FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND		
REVENUES:							
Taxes	\$54,616,070						\$54,616,070
Payments in lieu of taxes	214,810						214,810
Intergovernmental	17,915,421	\$18,436,787			\$ 4,328,426	\$5,361,561	46,042,195
Charges for service	17,091,805	20,005,306				8,817,214	45,914,325
Court costs, fines and forfeitures	15,903						15,903
Interest and rent	941,012	57,648	\$ 273,691	\$ 136,869	1,244,315	203,766	2,857,301
Contributions and other	203,108				1,438,553	4,035,840	5,677,501
Total revenues	90,998,129	38,499,741	273,691	136,869	7,011,294	18,418,381	155,338,105
EXPENDITURES							
Current:							
General government-administrative	24,260,739					2,012,879	26,273,618
General government - judicial	13,784,554					2,934,170	16,718,724
Public safety and corrections	23,072,495					4,474,066	27,546,561
Public works and enterprises	181,827					1,502,849	1,684,676
Health and human services	15,162,391	38,528,926			3,799,774	320,750	54,012,067
Culture and recreation	4,504,264					2,508,184	10,812,222
Community and economic development	406,666			712,306		3,436,891	3,843,557
Miscellaneous expenses	810,552			19,978,215		591,722	2,114,580
Debt service					26,098,990		19,978,215
Capital outlay							26,098,990
Total expenditures	82,183,488	38,528,926		20,690,521	29,898,764	17,781,511	189,083,210
OTHER FINANCING SOURCES (USES):							
Bond proceeds					41,365,000		41,365,000
Bond issue costs					(492,364)		(492,364)
Capital lease obligation					233,000		233,000
Transfer to airport					(1,050,000)		(1,050,000)
Transfers in	3,323,626			19,931,400		1,261,822	29,500,025
Transfers out	(13,812,461)	(630,787)		(618,252)	(11,138,393)	(870,930)	(27,070,823)
Total other financing sources (uses)	(10,488,835)	(630,787)		19,313,148	33,900,420	390,892	42,484,838
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,674,194)	(659,972)	273,691	(1,240,504)	11,012,950	1,027,762	8,739,733
FUND BALANCES, BEGINNING							
As previously reported	7,732,310	225,245	6,459,827	3,908,000	18,722,703	3,103,254	40,151,339
PRIOR PERIOD ADJUSTMENT							
					3,083,213		3,083,213
FUND BALANCES, BEGINNING, as restated	7,732,310	225,245	6,459,827	3,908,000	21,805,916	3,103,254	43,234,552
FUND BALANCES, ENDING	\$ 6,058,116	\$ (434,727)	\$ 6,733,518	\$ 2,667,496	\$ 32,818,866	\$ 4,131,016	\$ 51,974,285

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 8,739,733

Amounts reported for governmental activities in the statement of activities are different because:

Net loss of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities. (55,531)

Capital asset additions are reported as expenditures in the governmental funds. 20,988,303

Depreciation expense on capital assets is reported in the statement of activities. (4,257,410)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in revenue accrued between the prior and current year. (862,075)

Proceeds from the issuance of bonds payable and capital lease obligations are considered current financial resources and reported in the funds but not the statement of activities. (41,598,000)

The transfer of net assets from the enterprise fund to the governmental activities is considered an other expense on the statement of activities. (7,133,132)

Repayment of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities 13,489,959

Bond issue costs are reported as expenditures in the funds 492,364

Amortization and write-offs of premiums and deferred refunding charges (83,957)

Amortization and write-offs of bond issue costs. (376,881)

Change in the net pension obligation. 798,973

Change in accrued interest on bonds payable. 1,141,008

Change in accrued settlement fees. 400,000

Change in compensated absences. 955,117

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (7,361,529)

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

BALANCE SHEET
PROPRIETARY FUND
DECEMBER 31, 2006

GOVERNMENTAL
ACTIVITIES
INTERNAL SERVICE
FUND

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,499
Investments	998,934
Prepaid expenses	<u>113,697</u>

TOTAL	<u>\$1,114,130</u>
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LIABILITIES AND NET DEFICIT

Current liabilities:

Due to other funds	\$ 20,024
Claims payable	<u>2,339,925</u>

Total current liabilities	<u>2,359,949</u>
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NET DEFICIT,

Unrestricted	<u>(1,245,819)</u>
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TOTAL	<u>\$1,114,130</u>
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See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET DEFICIT -
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
OPERATING REVENUES,		
Charges for services	<u>\$1,416,644</u>	<u>\$ 1,531,581</u>
OPERATING EXPENSES:		
Operating services and supplies	2,035,782	
Depreciation and amortization	885,328	
Workers' compensation claims		1,370,141
Administrative		<u>231,581</u>
Total operating expenses	<u>2,921,110</u>	<u>1,601,722</u>
OPERATING LOSS	<u>(1,504,466)</u>	<u>(70,141)</u>
NONOPERATING REVENUES (EXPENSES):		
Gain on sale of capital assets	784,322	
Interest income		14,610
Interest expense	<u>(296,808)</u>	
Nonoperating revenues, net	<u>487,514</u>	<u>14,610</u>
(LOSS) INCOME BEFORE TRANSFERS:	<u>(1,016,952)</u>	<u>(55,531)</u>
TRANSFERS:		
Transfer in	9,889,228	
Transfer out	<u>(5,185,298)</u>	
Transfers in, net	<u>4,703,930</u>	<u>-</u>
NET INCOME (LOSS)	<u>3,686,978</u>	<u>(55,531)</u>
NET DEFICIT, BEGINNING	(3,184,869)	(1,190,288)
PRIOR PERIOD ADJUSTMENTS, Net	<u>(502,109)</u>	<u>-</u>
NET DEFICIT, BEGINNING, as restated	<u>(3,686,978)</u>	
NET DEFICIT, ENDING	<u>\$ -</u>	<u>\$(1,245,819)</u>

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF CASH FLOWS -
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from users	\$ 1,439,887	\$ 1,531,581
Cash paid to suppliers and employees	(4,052,949)	(315,315)
Cash payments for insurance claims		<u>(1,046,243)</u>
Net cash (used in) provided by operating activities	<u>(2,613,062)</u>	<u>170,023</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of capital assets	4,983,177	
Principal payments on bonds payable	(251,670)	
Principal payments on capital lease obligations	(109,205)	
Interest paid	(338,854)	
Transfer	<u>(2,429,202)</u>	
Net cash provided by capital and related financing activities	<u>1,854,246</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income		14,610
Purchase of investments		<u>(184,137)</u>
Net cash used in investing activities		<u>(169,527)</u>
NET (DECREASE) INCREASE IN CASH	(758,816)	496
CASH, BEGINNING	<u>758,816</u>	<u>1,003</u>
CASH, ENDING	<u>\$ -</u>	<u>\$ 1,499</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$(1,504,466)	\$ (70,141)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	885,328	
Increase or decrease in:		
Accounts receivable	49,010	
Inventories	75,466	
Prepaid expenses		(103,758)
Deferred revenue	(25,767)	
Accounts payable	(451,068)	
Accrued expenses	(70,586)	
Claims payable		323,898
Due to/from other funds	<u>(1,570,979)</u>	<u>20,024</u>
Net cash (used in) provided by operating activities	<u>\$(2,613,062)</u>	<u>\$ 170,023</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS,		
Transfer of long-term assets and liabilities to governmental activities	<u>\$ 7,133,132</u>	

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2006**

	PENSION TRUST FUND	AGENCY FUND	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 362,747	\$4,678,868	\$ 5,041,615
Accrued interest receivable	560,053		560,053
Investments, at fair value:			
Federated money market funds	5,725,551		5,725,551
U.S. government securities	32,947,577		32,947,577
Certificates of deposit	2,247,750		2,247,750
Corporate bonds	6,774,951		6,774,951
Notes and mortgages	553,865		553,865
Common stocks	61,233,734		61,233,734
Mutual funds	16,172,075		16,172,075
Total investments	<u>125,655,503</u>		<u>125,655,503</u>
TOTAL	<u>\$ 126,578,303</u>	<u>\$4,678,868</u>	<u>\$ 131,257,171</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES:			
Due to other funds		\$2,133,859	\$ 2,133,859
Other liabilities		<u>2,545,009</u>	<u>2,545,009</u>
Total liabilities		<u>4,678,868</u>	<u>4,678,868</u>
NET ASSETS,			
Held in trust for pension benefits	<u>\$ 126,578,303</u>		<u>\$ 126,578,303</u>
TOTAL	<u>\$ 126,578,303</u>	<u>\$4,678,868</u>	<u>\$ 131,257,171</u>

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	PENSION TRUST FUND
ADDITIONS,	
Contributions:	
Plan members	\$ 3,826,253
County	<u>2,856,077</u>
Total contributions	<u>6,682,330</u>
INVESTMENT INCOME:	
Net appreciation in fair value of investments	8,811,254
Interest	2,405,137
Dividends	2,448,621
Investment expense	<u>(57,250)</u>
Net investment earnings	<u>13,607,762</u>
Total additions	<u>20,290,092</u>
DEDUCTIONS,	
Benefits paid	<u>5,044,508</u>
INCREASE IN NET ASSETS	15,245,584
NET ASSETS, BEGINNING	<u>111,332,719</u>
NET ASSETS, ENDING	<u>\$ 126,578,303</u>

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

COMBINING BALANCE SHEET -
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2006

	SCRANTON LACKAWANNA HEALTH AND WELFARE AUTHORITY	LACKAWANNA COUNTY LIBRARY SYSTEM	LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY	LACKAWANNA COUNTY RIVER BASIN SEWER AUTHORITY	COUNTY OF LACKAWANNA TRANSIT SYSTEM AUTHORITY	MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY	LACKAWANNA COUNTY PERFORMING ARTS CENTER AUTHORITY	TOTALS
CURRENT ASSETS:								
Cash and cash equivalents	\$ 29,955	\$ 850,672	\$ 1,128,789	\$ 114,857	\$ 1,152,533	\$ 886,125	\$ 1,299,789	\$ 5,432,765
Restricted cash	1,357,182	3,115		87,399	4,210,771		206,935	4,538,175
Investments	19,516,979	322,230		6,212,843	629,736	903,724		2,309,148
Restricted investments			3,987					26,633,546
Due from other governments			332,278	2,306,218	12,449	1,207,139		589,455
Other receivables	153,550,650	124,635						157,533,369
Taxes receivable, net		360,739		46,334	88,764	126,899		360,739
Other current assets								261,987
Total current assets	174,454,766	1,661,391	1,465,054	8,787,651	6,679,721	3,123,877	1,506,724	197,659,184
CAPITAL ASSETS NOT BEING DEPRECIATED								
CAPITAL ASSETS, net		50,000	854,271		1,841,272			2,745,543
OTHER ASSETS	13	924,247	20,521,802	723,931	5,774,734	19,635,853	7,758,331	54,614,967
TOTAL	\$ 174,454,779	\$ 2,635,638	\$ 1,465,054	\$ 30,867,655	\$ 14,295,727	\$ 24,084,699	\$ 9,265,055	\$ 257,068,607
LIABILITIES:								
Current liabilities:								
Accounts payable	\$ 1,566	\$ 79,763	\$ 553,925	\$ 294,871	\$ 351,957	\$ 553,746	\$ 62,720	\$ 1,896,982
Accrued expenses		10,190	1,266,448	606,404	525,519	1,306,626	59,701	596,976
Current portion of long-term debt				139,501	324,620		340,000	3,519,478
Current portion of compensated absences			73,113					464,121
Due to primary government						12,299,961	833,333	12,373,074
Deferred revenue						2,022,580		2,855,913
Escrow liability	20,902,550	29,104				185,258		20,902,550
Other liabilities								214,362
Total current liabilities	20,904,116	108,867	1,903,676	1,040,776	1,202,096	16,368,171	1,295,754	42,823,456
LONG-TERM DEBT								
COMPENSATED ABSENCES			4,814,469	208,283		57,817	6,312,414	15,247,916
NONRECOURSE DEBT ISSUES	153,550,650							663,861
Total liabilities	174,454,766	108,867	6,718,145	5,312,275	1,657,674	16,425,988	7,608,168	153,550,650
NET ASSETS:								
Invested in capital assets, net of related debt		974,247	16,833,313	16,833,313	7,616,006	18,293,394	1,105,917	44,822,877
Restricted		212,815	6,300,242	6,300,242	4,210,771	903,724	206,935	11,834,487
Unrestricted	13	1,339,709	(5,253,091)	2,421,825	811,276	(11,538,407)	344,035	(11,874,640)
Total net assets	13	2,526,771	(5,253,091)	25,555,380	12,638,053	7,658,711	1,656,887	44,782,724
TOTAL	\$ 174,454,779	\$ 2,635,638	\$ 1,465,054	\$ 30,867,655	\$ 14,295,727	\$ 24,084,699	\$ 9,265,055	\$ 257,068,607

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS -
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	SCRANTON LACKAWANNA HEALTH AND WELFARE AUTHORITY	LACKAWANNA COUNTY LIBRARY SYSTEM	LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY	LACKAWANNA COUNTY RIVER BASIN SEWER AUTHORITY	COUNTY OF LACKAWANNA TRANSIT SYSTEM AUTHORITY	MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY	LACKAWANNA COUNTY PERFORMING ARTS CENTER AUTHORITY	TOTALS
REVENUES:								
Charges for services	\$ 73,286	\$ 250,000		\$ 6,072,882	\$ 2,218,865	\$ 3,285,070	\$ 1,193,275	\$ 13,093,178
Real estate taxes		3,433,775						3,433,775
Tax incremental financing			\$ 703,323					703,323
Rental income	18,313,500	68,953	2,134	234,771	219,563	53,412	70,325	18,313,500
Interest income	783,163	1,272,676	135,475		2,624,539			4,313,721
Operating grants and contributions		173,250		1,539,722	1,814,563			4,032,690
Capital grants and contributions		7,106	1,252,241	557,005	102,245			3,527,535
Other								1,918,597
Total revenues	<u>19,169,949</u>	<u>5,205,160</u>	<u>2,093,173</u>	<u>8,404,180</u>	<u>6,979,775</u>	<u>3,338,482</u>	<u>1,263,600</u>	<u>46,454,319</u>
EXPENSES:								
Public works and enterprises		5,093,701		6,573,886	6,474,071	4,313,505	422,787	18,141,658
Culture and recreation								4,736,292
Community and economic development			633,960					633,960
Debt service	9,366,300		503,413	163,840		93,929	467,597	10,595,079
Other	9,803,652					447,344		10,250,996
Total expenses	<u>19,169,952</u>	<u>5,093,701</u>	<u>1,137,373</u>	<u>6,737,726</u>	<u>6,474,071</u>	<u>4,854,778</u>	<u>890,384</u>	<u>44,357,985</u>
CHANGE IN NET ASSETS	<u>(3)</u>	<u>111,459</u>	<u>955,800</u>	<u>1,666,454</u>	<u>505,704</u>	<u>(1,516,296)</u>	<u>373,216</u>	<u>2,096,334</u>
NET ASSETS (DEFICIT) BEGINNING	<u>16</u>	<u>2,415,312</u>	<u>(6,208,891)</u>	<u>23,888,926</u>	<u>12,132,349</u>	<u>9,175,007</u>	<u>1,283,671</u>	<u>42,686,390</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 13</u>	<u>\$ 2,526,771</u>	<u>\$ (5,253,091)</u>	<u>\$ 25,555,380</u>	<u>\$ 12,638,053</u>	<u>\$ 7,658,711</u>	<u>\$ 1,656,887</u>	<u>\$ 44,782,724</u>

See Notes to Financial Statements

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The major accounting principles and practices followed by the County of Lackawanna, Pennsylvania (the "County") are summarized below.

NATURE OF OPERATIONS

The County is located in northeastern Pennsylvania and was established under the laws of the Commonwealth of Pennsylvania in 1879. The County operates under a Home Rule charter form of government. An elected three member Board of Commissioners governs the County, which provides general governmental services, public safety, health and welfare, recreation and community enrichment programs.

FINANCIAL REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units, discussed in Note 2, are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates 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. *Program* revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation or construction of major capital assets.

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.

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.

The Debt Service Fund accounts for resources accumulated for the purpose of funding long-term debt obligations.

The County reports the following nonmajor governmental funds:

Liquid Fuels, Community Development, 911, Domestic Relations, Hotel Rental Tax, Help America Vote and other miscellaneous activities.

The County reports the following proprietary funds:

The Enterprise Fund accounts for the operation of the Montage Ski Resort. The Enterprise Fund distinguishes between operating 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, administrative costs and depreciation and amortization. All other revenues and expenses are reported as nonoperating. The ski resort was sold to a private party during 2006 and the remaining liabilities were transferred to the governmental activities of the County.

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.

The County's Fiduciary Funds account for the Pension Trust Fund and the Agency Fund. The Pension Trust Fund accounts for assets held by the County as trustee for individuals currently or previously employed by the County. The Agency Fund accounts for assets held by the County in a custodial or agent function.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the County's Human Services Fund and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

BUDGETARY DATA

In accordance with provisions of Section 1782 of Public Law No. 323, as amended, of the Commonwealth of Pennsylvania, commonly known as the County Code, the County prepares and adopts a budget on or before December 31 for the following fiscal year. Budgets are prepared on a cash basis and are adopted for the General, Liquid Fuels, and Debt Service Funds. Accordingly, the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, Liquid Fuels, and Debt Services Funds is prepared on the cash basis.

In addition to being prepared on a cash basis, the County's budgets contain one other significant feature. The County processes payrolls for a number of affiliated organizations (some of which are reported as Special Revenue Funds). The County accounts for the payment of these payrolls in the General Fund. Periodically, these organizations reimburse the General Fund for the payrolls. The County budgets the disbursement of such payrolls as General Fund appropriations and the reimbursements as General Fund revenues. The payrolls are, in some cases, budgeted as appropriations in the other Special Revenue Funds, which duplicates the disbursements for payroll costs in statements prepared on the County's budgetary basis of accounting.

In general, the County maintains budgetary control by major expenditure classification (salaries, fringe benefits, materials and supplies, purchased services and capital outlay) within departments. The County Commissioners must approve budgetary transfers and/or additional appropriations not spent in prior years. Expenditures cannot legally exceed the appropriations at the budgetary control levels described above. Appropriations that are not expended lapse at the end of the fiscal year.

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.

INVESTMENTS

Investments in all funds of the primary government are stated at fair value based on quoted market prices. Investments held by the Internal Service Fund are restricted to paying claims of the workers' compensation program.

TAXES RECEIVABLE

All property tax receivables are shown net of an allowance for uncollectible accounts. The property tax receivable allowance is calculated based on collection history and was \$8,134,677 at December 31, 2006.

DUE FROM OTHER GOVERNMENTS

Due from other governments includes an allowance for doubtful accounts in the County’s Health and Human Services Fund of \$421,000 at December 31, 2006.

CASH HELD FOR CAPITAL PROJECTS

Cash held for capital projects represents unspent proceeds of various bond issues.

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.

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	20 years	20 years
Buildings and improvements	25 years	25 years
Furniture and equipment	5-20 years	5-20 years

DEFERRED CHARGES

Costs incurred in connection with the issuance of certain general obligation bonds have been deferred in the statement of net assets and are being amortized over the life of the related obligation.

ESCROW LIABILITIES

Escrow liabilities represent amounts that are held by the County primarily for items such as undistributed fees, fines and costs held by row offices, bail collections, proceeds from sheriff's sales, child support collections, various taxes, fees and licenses and taxes to be distributed to municipalities and school districts.

COMPENSATED ABSENCES

The County's collective bargaining agreements specify the sick and vacation leave policies for employees covered by those agreements. Generally, covered employees are paid for unused sick days, up to maximum amounts established by the contracts, upon separation from the County. Nonunion County employees are paid for unused sick leave, up to a maximum of 100 days, at retirement. Vacation days generally do not accumulate; however, certain employees may accumulate vacation days.

DERIVATIVE FINANCIAL INSTRUMENT

The County has entered into interest rate and basis swap agreements, which are considered derivative financial instruments, to swap the variable interest rate on a portion of its long-term debt to a fixed rate (Note 10). Other than the net interest expenditures resulting from this agreement, no amounts are recorded in the financial statements.

SELF-INSURANCE

The County is self-insured for workers' compensation claims. The County maintains a stop loss policy limiting its liability for any one specific claim. The County accounts for its self-insurance activity in its Internal Service Fund, which charges other funds based on the estimated annual cost.

FUND BALANCE RESERVES

Fund balance reserves represent resources restricted for the acquisition of capital assets, the payment of long-term obligations and for other uses.

ELIMINATIONS AND INTERNAL BALANCES

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are labeled "internal balances" on the statement of net assets.

RESTRICTED NET ASSETS

When both restricted and unrestricted resources are available for use, the County's policy is to use restricted resources first, and then unrestricted resources as needed.

APPLICATION OF FASB PRONOUNCEMENTS

The County applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The County does not apply FASB pronouncements issued after November 30, 1989.

ALLOCATION OF INDIRECT EXPENSES

The County does not allocate any indirect expenses including depreciation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. REPORTING ENTITY

In accordance with the guidance contained in Governmental Accounting Standards Board ("GASB") Statement 14, *The Financial Reporting Entity*, as amended by GASB 39, the County has evaluated all related entities (authorities, commissions, and affiliates) for the possible inclusion in the financial reporting entity.

The component units discussed below are included in the County's reporting entity because of the significance of financial and operational relationships with the County.

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 Health and Human Services and the other Special Revenue Fund. The component units reported in this way are:

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

DISCRETELY PRESENTED COMPONENT UNITS

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:

- The Scranton Lackawanna Health and Welfare Authority (“SLHWA”) acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System (“LCLS”) 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 LCLS.
- The Lackawanna County Redevelopment Authority (“LCRA”) administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the LCRA.
- The Lackawanna County River Basin Sewer Authority (“LCRBSA”) owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LCRBSA. The County has also guaranteed the long-term debt of the LCRBSA.
- The County of Lackawanna Transit System Authority (“COLTS”) operates the County’s mass transit system. The County Commissioners appoint the governing board of COLTS.
- The Multi-Purpose Stadium Authority of Lackawanna County (“MPSA”) operates the Lackawanna County Multi-Purpose Stadium. The County Commissioners appoint the governing board of the MPSA. The County has also guaranteed the long-term debt of the MPSA.

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

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 2006, the County provided approximately \$1,775,000 of capital. In addition, the County loaned the Airport \$900,000 for completion of the new terminal at the Airport in 2004, which is still outstanding at December 31, 2006. The County has included a net investment in Airport of \$5,951,548 in its capital assets at December 31, 2006.
- Lackawanna Susquehanna Mental Health / Mental Retardation Program. A joint venture with the County of Susquehanna, the commissioners of each county appoint 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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Under the County Administrative Code, the County is authorized to invest its funds in the following:

- United States Treasury bills;
- Short-term obligations of the United States government or its agencies or instrumentalities;
- Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurer;
- Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth of Pennsylvania, or any agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision;
- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania which are insured by the FDIC or other like insurer. For any amounts in excess of the insured maximum, such deposits must be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities;
- Commercial paper and prime commercial paper meeting certain requirements.

In addition, the County Administrative Code provides that a pension or retirement fund may make any investment authorized by 20 PA C.S. 73 (relating to fiduciary investments).

DEPOSITS WITH FINANCIAL INSTITUTIONS

CUSTODIAL CREDIT RISK

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a policy for custodial credit risk. At December 31, 2006, the bank balance of the County's deposits with financial statements, including cash equivalents, was \$61,456,055 compared to the carrying amount of \$58,976,435. The difference is caused by items in-transit and outstanding checks. \$60,162,895 of the County's deposits was exposed to custodial credit risk and was uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

INVESTMENTS

As of December 31, 2006, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
U.S. government agency	1-10 years	\$7,046,515
Money market funds		673,717
Mutual funds		<u>12,220</u>
Total		<u>\$7,732,452</u>

<u>PENSION TRUST FUND</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Common stock		\$ 61,233,734
U.S. government obligations	1-30 years	32,947,577
Mutual funds		16,172,075
Corporate bonds	1-30 years	6,774,951
Money Market		5,725,551
Certificates of deposit		2,247,750
Notes and Mortgages	5-30 years	<u>553,865</u>
Total		<u>\$125,655,503</u>

INTEREST RATE RISK

The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CREDIT RISK AND CONCENTRATION OF CREDIT RISK

The County has limits on the amount that may be invested in any one issuer. At December 31, 2006, no one issuer totaled more than five percent of the Plan's net assets. The Plan's investment policy requires all bonds to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County's investments in debt securities of the Governmental funds had the following credit risk at December 31, 2006:

<u>INVESTMENT</u>	<u>S&P RATING</u>	<u>%</u>
U.S government obligations	AAA	<u>100.00</u>

The County's investments in debt securities of the Pension trust fund had the following credit risk at December 31, 2006:

<u>INVESTMENT</u>	<u>S&P RATING</u>	<u>%</u>
U.S government obligations	AAA	81.80%
Corporate Bonds	Aaa	2.57
Corporate Bonds	Aa1	1.84
Corporate Bonds	Aa2	1.77
Corporate Bonds	Aa3	2.49
Notes and Mortgages	A	1.02
Corporate Bonds	A1	3.55
Corporate Bonds	A2	2.00
Corporate Bonds	A3	1.40
Corporate Bonds	Baa2	.58
Corporate Bonds	Baa3	<u>.98</u>
Total		<u>100.00%</u>

4. REAL ESTATE TAXES

The total tax on real estate in 2006 was 42.098 mills (\$42.098 per \$1,000 of assessed valuation). Of this amount, 38.598 mills were levied for general and debt service purposes, 2.5 mills were levied for library services in the County and 1.0 mill was levied for education fund purposes. 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, 2006 were \$16,050,322. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of \$7,915,645.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2006, was as follows:

	January 1, <u>2006</u>	<u>Acquisitions</u>	<u>Transfers</u>	December 31, <u>2006</u>
Capital assets not being depreciated:				
Land	\$ 1,363,626		\$914,311	\$ 2,277,937
Construction-in-progress	<u>4,059,983</u>	<u>\$14,242,469</u>	<u> </u>	<u>18,302,452</u>
Total capital assets, not being depreciated	<u>5,423,609</u>	<u>14,242,469</u>	<u>914,311</u>	<u>20,580,389</u>
Capital assets being depreciated:				
Buildings and improvements	60,558,175	2,594,350		63,152,525
Machinery and equipment	26,200,609	1,113,204		27,313,813
Equipment under capital lease	1,190,325	233,000		1,423,325
Infrastructure	30,759,354	1,030,688		31,790,042
Investment in Airport	<u>6,422,975</u>	<u>1,774,592</u>		<u>8,197,567</u>
Total capital assets, being depreciated	<u>125,131,438</u>	<u>6,745,834</u>		<u>131,877,272</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,882,446)	(1,576,347)		(19,458,793)
Machinery and equipment	(15,491,846)	(2,301,272)		(17,793,118)
Equipment under capital lease	-	(81,944)		(81,944)
Infrastructure	(27,555,893)	(115,090)		(27,670,983)
Investment in Airport	<u>(2,063,262)</u>	<u>(182,757)</u>		<u>(2,246,019)</u>
Total accumulated depreciation	<u>(62,993,447)</u>	<u>(4,257,410)</u>		<u>(67,250,857)</u>
Total capital assets being depreciated, net	<u>62,137,991</u>	<u>2,488,424</u>		<u>64,626,415</u>
Governmental activities capital assets, net	<u>\$ 67,561,600</u>	<u>\$16,730,893</u>	<u>\$914,311</u>	<u>\$ 85,206,804</u>

At December 31, 2006, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$18,300,000, which is included in construction in progress at December 31, 2006. The County is committed to additional costs of approximately \$34,200,000 related to these projects.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

Capital asset activity for business-type activities for the year ended December 31, 2006, was as follows:

	JANUARY 1, 2006	ACQUISITIONS	DISPOSITIONS	TRANSFERS	DECEMBER 31, 2006
Capital assets not being depreciated,					
Land	\$ 1,404,000	\$ -	\$ (489,689)	\$(914,311)	\$ -
Capital assets being depreciated:					
Land Improvements	8,447,916	-	(8,447,916)	-	-
Buildings and Improvements	3,557,294	-	(3,557,294)	-	-
Machinery and Equipment	<u>7,887,511</u>	<u>-</u>	<u>(7,887,511)</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated	<u>19,892,721</u>	<u>-</u>	<u>(19,892,721)</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation for:					
Land Improvements	(7,095,346)	(610,000)	7,705,346	-	-
Buildings and Improvements	(2,455,302)	(85,000)	2,540,302	-	-
Machinery and Equipment	<u>(5,802,908)</u>	<u>(135,000)</u>	<u>5,937,908</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(15,353,556)</u>	<u>(830,000)</u>	<u>16,183,556</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated, net	<u>4,539,165</u>	<u>(830,000)</u>	<u>(3,709,165)</u>	<u>-</u>	<u>-</u>
Business-type activities capital assets, net	<u>\$ 5,943,165</u>	<u>\$(830,000)</u>	<u>\$ (4,198,854)</u>	<u>\$(914,311)</u>	<u>\$ -</u>

During 2006, the County sold substantially all the assets of Montage Ski Resort to a private party for approximately \$4,980,000 and realized a gain on sale of assets of approximately \$784,000. The governmental activities of the County assumed the remaining assets and liabilities of the Enterprise Fund, which consisted of approximately \$914,000 of land, \$491,000 of unamortized bond issue costs, \$8,160,000 of bonds payable and \$378,000 of unamortized bond premiums.

6. LONG-TERM OBLIGATIONS

GOVERNMENTAL ACTIVITIES

During 1995, the County issued \$725,000 of general obligation bonds (Series B of 1995) to repay a 1994 bank loan. These bonds are due in varying annual installments plus interest at rates ranging from 6.00% to 7.25% with final maturity scheduled for 2009. There is no principal due in 2007.

During 1997, the County issued \$34,485,000 of general obligation bonds (Series A of 1997) to finance the expansion and renovation of the County Prison. These bonds are due in varying annual installment plus interest at rates ranging from 4.15% to 5.50% with final maturity scheduled for 2007. Principal due in 2007 is \$5,000.

During 1999, the County issued \$27,865,000 of general obligation bonds (Series A of 1999) to refund a 1993 bond issue, advance refund a portion of a 1994 bond issue, advance refund a portion of a 1996 bond issue, advance refund a portion of a 1997 bond issue as well as finance capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 3.00% to 5.00%, with final maturity scheduled for 2022. Principal due in 2007 is \$1,425,000.

During 1999, the County issued \$5,225,000 of general obligation bonds (Series B of 1999) to fund construction of an amphitheatre. These bonds are due in varying annual installments plus interest at rates ranging from 5.875% to 7.000%, with final maturity scheduled for 2019. In 2002, the County transferred \$4,000,000 of the bonds to the Lackawanna County Performing Arts Center Authority, a component unit of the County. Principal due in 2007 is \$50,000.

During 2002, the County issued \$19,540,000 of general obligation bonds (Series A of 2002) to refund a 1992 and a 1995 bond issue and finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 2.000% to 5.125%, with final maturity scheduled for 2020. Principal due in 2007 is \$1,055,000.

During 2004, the County issued \$10,110,000 of general obligation bonds (Series A of 2004) to currently refund a 1994 bond issue, finance various capital projects, and fund a deposit to the Debt Service Fund. These bonds are due in varying annual installments plus interest at rates ranging from 2.00% to 5.00%, with final maturity scheduled for 2015. Principal due in 2007 is \$995,000.

During 2004, the County issued \$29,270,000 of general obligation bonds (Series B of 2004) to finance various capital projects. These bonds are due at varying annual installments to begin in 2016 plus monthly interest installments at a variable rate (3.85% at December 31, 2006) with final maturity scheduled for 2028. There is no principal due in 2007.

During 2004, the County issued \$4,210,000 of general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments to begin in 2008 plus interest at rates ranging from 3.76% to 5.35% with final maturity scheduled for 2019. Principal due in 2007 is \$5,000.

During 2004, the County issued \$20,145,000 of general obligation bonds (Series D of 2004) to finance unfunded debt of the County, including certain outstanding obligations of the current and prior years. These bonds are due at varying quarterly installments plus interest at a variable rate (3.95% at December 31, 2006) with final maturity scheduled for 2014. Principal due in 2007 is \$1,810,000.

During 2005, the County issued \$38,650,000 of general obligation bonds (Series B of 2005) to advance refund a 1997 bond issue and a portion of the 2002 Series A general obligation bonds. These bonds are due in varying annual installments plus monthly interest installments at a variable rate (3.85% at December 31, 2006) with final maturity scheduled for 2020. Principal due in 2007 is \$25,000.

During 2006, the County issued \$41,365,000 of general obligation bonds (Series A of 2006) to currently refund the 2005 Series A bond issued and to finance various capital projects. These bonds are in varying annual installments to begin in 2008 plus monthly interest installments at a variable rate (3.95% at December 31, 2006) with final maturity scheduled for 2029. There is no principal due in 2007.

The County and the County of Luzerne have equally assumed the debt of Northeastern PA Sports Development Corporation ("NPSDC"), the entity established to purchase the professional baseball team operated by the Multi-Purpose Stadium Authority of Lackawanna County. The debt requires monthly payments of \$9,248, including interest at a rate of 7.85% through August of 2008. The County's portion of the monthly payment is \$4,624. In the event of the sale of the professional baseball team, the County of Luzerne would be entitled to one-half of the proceeds of the sale. Principal due in 2007 is \$55,998.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

The following summarizes the changes in bonds and note payable in 2006:

	BALANCE DECEMBER 31, 2006	INCREASES	DECREASES	TRANSFERS	BALANCE DECEMBER 31, 2006
Bonds:					
Series B of 1995	\$ 280,000		\$ (65,000)		\$ 215,000
Series A of 1997	10,000		(5,000)		5,000
Series A of 1999	23,775,000		(1,005,000)		22,770,000
Series B of 1999	1,030,000		(45,000)		985,000
Series A of 2002	14,640,000		(1,355,000)		13,285,000
Series A of 2004	1,448,279		(43,331)	\$8,160,052	9,565,000
Series B of 2004	29,270,000				29,270,000
Series C of 2004	4,205,000		(5,000)		4,200,000
Series D of 2004	18,485,000		(1,730,000)		16,755,000
Series A of 2005	9,135,000		(9,135,000)		-
Series B of 2005	38,650,000		-		38,650,000
Series A of 2006		\$41,365,000	-		41,365,000
Notes,					
NPSDC Note	116,147		(57,025)		59,122
Sub-total	141,044,426	41,365,000	(13,445,356)	8,160,052	177,124,122
Bond premiums and deferred charges	(1,295,919)	-	83,957	378,443	(833,519)
Total	<u>\$139,748,507</u>	<u>\$41,365,000</u>	<u>\$(13,361,399)</u>	<u>\$8,538,495</u>	<u>\$176,290,603</u>

Interest paid on these bonds and notes was \$6,137,494 in 2006.

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. Government securities or securities collateralized by U.S. Government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. At December 31, 2006, the amount of defeased bonds outstanding was \$34,890,000.

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, net of the effect of the interest rate swaps (Note 7), as of December 31, 2006. As rates vary, net interest rate swap payments will vary.

<u>YEAR ENDED DECEMBER 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>INTEREST RATE SWAPS, NET</u>	<u>TOTAL</u>
2007	\$ 5,425,998	\$ 7,268,970	\$ 617,077	\$ 13,312,045
2008	6,958,124	7,031,391	757,955	14,747,470
2009	8,145,000	6,736,338	748,470	15,629,808
2010	8,360,000	6,405,164	736,584	15,501,748
2011	8,755,000	6,031,952	724,166	15,511,118
2012-2016	49,390,000	23,981,628	3,277,221	76,648,849
2017-2021	44,525,000	13,823,846	2,322,292	60,671,138
2022-2026	26,635,000	6,764,802	1,347,014	34,746,816
2027-2029	<u>18,930,000</u>	<u>1,363,523</u>	<u>287,220</u>	<u>20,580,743</u>
Total	<u>\$177,124,122</u>	<u>\$79,407,614</u>	<u>\$10,817,999</u>	<u>\$267,349,735</u>

BUSINESS-TYPE ACTIVITY

In 2004, the County issued \$10,110,000 of general obligation bonds (Series A of 2004) to currently refund the Series of 1994 bond issue. In 2006, the enterprise fund assets were sold and the remaining debt transferred to the government activities of the County.

The following summarizes the change in this bond payable in 2006:

	<u>BALANCE JANUARY 1, 2006</u>	<u>DECREASES</u>	<u>TRANSFERS</u>	<u>BALANCE DECEMBER 31, 2006</u>
Series A of 2004	\$8,411,721	\$(251,669)	\$(8,160,052)	\$ -
Bond Premium	<u>420,492</u>	<u>(42,049)</u>	<u>(378,443)</u>	<u>-</u>
	<u>\$8,832,213</u>	<u>\$(293,718)</u>	<u>\$(8,538,495)</u>	<u>\$ -</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2006:

	<u>AMOUNT</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying semiannual installments plus interest at 7.5%, maturing 2011	\$ 5,834,261
Term note, due in varying semiannual installments plus interest a 6.5%, maturing 2011	<u>246,656</u>
Total	<u>6,080,917</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 \$30,425	3,799,575
PENNVEST note, due in monthly installments of \$17,432 including interest at 1 %; maturing 2011	<u>870,045</u>
Total	<u>4,669,620</u>
<u>Multi-Purpose Stadium Authority of Lackawanna County</u>	
Guaranteed Stadium Revenue Bonds, Series 2002, due in varying annual installments plus interest at an average rate of 2.95%; final maturity scheduled for 2007. Reported net of unamortized premium of \$8,175	1,178,175
Term note, due in monthly payments of \$4,602 including interest at 3.84 %; maturing 2007	13,833
Term note, due in monthly payments of \$9,852 including interest at 2.79%; final maturity scheduled for 2008	<u>172,435</u>
Total	<u>1,364,443</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>AMOUNT</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. Reported net of unamortized discount of \$22,586.	\$ 3,037,414
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.	<u>3,615,000</u>
Total	<u>6,652,414</u>
TOTAL	<u>\$18,767,394</u>

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>
2007	\$ 3,511,303
2008	2,307,081
2009	2,495,987
2010	2,496,390
2011	1,576,469
2012-2016	4,340,000
2017-2020	<u>2,085,000</u>
Total	18,812,230
Less unamortized premium and discount	<u>44,836</u>
Total	<u>\$18,767,394</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 bar of SLHWA's rights, title and interest in the facilities under the various bond agreements.

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, 2006, there were ten general obligation bond issues outstanding and seven notes and mortgages outstanding with an aggregate balance of \$153,550,650.

7. CAPITAL LEASE PAYABLE

The County entered into a capital lease for energy conservation equipment in 2005. The lease agreement requires one hundred twenty monthly payments of \$13,106 through July 1, 2015.

The following is a summary of changes in capital lease payable:

Balance, January 1, 2006	\$1,157,880
Increase	233,000
Decrease	<u>(44,602)</u>
Balance, December 31, 2006	1,346,278
Less current portion	<u>131,044</u>
Long-term portion of capital lease payable	<u>\$1,215,234</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS

The County makes its capital lease payments from the General Fund.

The following is a summary of future minimum lease payments required under the capital leases along with the present value of the net minimum lease payments as of December 31, 2006:

<u>YEARS ENDING DECEMBER 31</u>	<u>AMOUNT</u>
2007	\$ 190,617
2008	190,617
2009	190,617
2010	190,617
2011	190,617
2012-2015	<u>683,044</u>
Total minimum lease payments	1,636,129
Less amounts representing interest	<u>289,851</u>
Present value of net minimum lease payments	<u>\$1,346,278</u>

Total interest paid on this capital lease in 2006 was \$14,718.

8. COMPENSATED ABSENCES

The changes in the County's compensated absences in 2006 are summarized as follows:

Balance, January 1, 2006	\$4,335,211
Increase	2,576,940
Decrease	<u>(3,532,057)</u>
Balance, December 31, 2006	3,380,094
Less current portion	<u>436,976</u>
Long-term compensated absences	<u>\$2,943,118</u>

The County pays its compensated absences from the General fund.

9. 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, 2006, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	449
Terminated plan members entitled to but not yet receiving benefits	113
Active plan members	<u>1,368</u>
Total	<u>1,930</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%). The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contributions 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 may be financed through investment earnings.

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

The annual pension cost was \$2,317,365 based on an actuarial valuation using the entry age method and contributions to the Plan were \$2,856,077 in 2006. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% - 4.50%; graduated in .25% increments over 2 years, and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Lackawanna County Employees' Retirement Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Prior to January 1, 2005, the aggregate actuarial cost method was used to determine costs.

Historical trend information for the Plan is presented below:

	<u>ANNUAL PENSION COST (APC)</u>	<u>COUNTY CONTRIBUTION</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
12/31/02	\$1,197,585	\$ -0-	0%	\$1,407,078
12/31/03	2,442,365	-0-	0%	3,775,083
12/31/04	3,172,042	3,911,821	123%	2,856,077
12/31/05	2,756,065	-0-	0%	5,475,244
12/31/06	2,317,365	2,856,077	123%	4,676,271

Information regarding the plan can be obtained from the County.

10. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

OBJECTIVE OF THE INTEREST RATE SWAPS

As a means to manage interest rate exposure, the County entered into interest rate swaps to effectively change the County's variable interest rate on certain bonds to a synthetic fixed rate. In addition, to mitigate some of the risks inherent in the variable to fixed rate swaps the county has entered into variable to variable basis swaps in connection with the same bonds.

TERMS

The County entered into a pay-fixed, receive-variable interest rate swap and a pay variable receive variable basis swap with PNC Bank, N.A. ("PNC") on its Series B of 2004 general obligation bonds. The agreements terminate on October 15, 2029. The notional value of both swaps at inception and at December 31, 2006 was \$29,270,000. The net effect of the rate swap and the basis swap requires the County to receive a variable payment based on 61.353% percent of the five year International Swaps & Derivatives Association ("ISDA") rate (3.03% at December 31, 2006) and to pay a fixed rate of 3.693% on the 15th of each month. The variable rate of the swap creates an average synthetic fixed coupon of the variable rate plus .66% or 4.613% at December 31, 2006.

The County also entered into a pay-fixed, receive-variable interest rate swap and a pay variable receive variable basis swap with PNC on its Series B of 2005 general obligation bonds. The agreements terminate on September 15, 2020. The notional value of the swaps at inception and at December 31, 2006 was \$38,650,000. The net effect of the rate swap and the basis swap requires the County to receive a variable payment based on 61.434% of the five year ISDA rate (3.03% at December 31, 2006) and to pay a fixed rate of 3.54% on the 15th of each month. The variable rate of the swap creates an average synthetic fixed coupon of the variable rate plus .51% or 4.36% at December 31, 2006.

The County also entered into a pay-fixed, receive-variable interest rate swap and a pay variable receive variable basis swap with PNC on its Series A of 2006 general obligation bonds. The agreements terminate on September 1, 2029. The notional value of both swaps at inception and at December 31, 2006 was \$41,365,000. The net effect of the rate swap and the basis swap requires the County to receive a variable payment based on 61.863% of the five year ISDA rate (3.05% at December 31, 2006) and to pay a fixed rate of 3.94% on the 15th of each month. The variable rate of the swap creates an average synthetic fixed coupon of the variable rate plus .89% or 4.84% at December 31, 2006.

FAIR VALUE

At December 31, 2006, the swaps had negative fair values as follows:

2004 Series B:	
Rate Swap	\$ 668,909
Basis Swap	\$ 536,505
2005 Series B:	
Rate Swap	\$ 293,467
Basis Swap	\$ 473,109
2006 Series A:	
Rate Swap	\$1,772,767
Basis Swap	\$ 547,562

The fair values were provided by an independent third party and are based on a proprietary model.

CREDIT RISK

As of December 31, 2006, the County was not exposed to credit risk because the swaps 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.

BASIS RISK

The swap exposes the government to basis risk should the relationship between LIBOR and the weekly interest rate as determined by the remarketing agent converge, changing the synthetic rate on the bonds.

INTEREST RATE RISK

The swaps increase the County's exposure to interest rate risk. As the ISDA Index decreases, the County's net payments on the swaps increase.

TERMINATION RISK

The derivative contracts use the International Swap Dealers Association Master agreement, which includes standard termination events, such as failure to pay and bankruptcy. The County or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If the swaps are terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swaps have a negative fair value, the County would be liable to the counterparty for a payment equal to the swap's fair value.

11. DEFICIT FUND BALANCES

The Internal Service Fund has a net deficit of \$1,245,819 at December 31, 2006. 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 Health and Human Services Fund has a net deficit of \$434,727 at December 31, 2006. This deficit results from the net loss of the County Nursing Home in 2006.

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of \$5,253,091 at December 31, 2006. 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.

12. 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 2006 are as follows:

Balance, December 31, 2005	\$2,016,027
Claims incurred	1,370,141
Claims paid	<u>(1,046,243)</u>
Balance, December 31, 2006	<u>\$2,339,925</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.

13. INTERFUND BALANCES/TRANSFERS

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2006 are as follows:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund:		
Health and Human Services Fund	\$2,041,622	
Capital Projects Fund		\$2,875,496
Non-Major Funds	1,541,118	806,819
Internal Service Fund	20,024	
Agency Fund	<u>2,133,859</u>	
Total General Fund	<u>5,736,623</u>	<u>3,682,315</u>
Health and Human Services Funds:		
General Fund		2,041,622
Debt Service Fund		262,750
Capital Projects Fund		<u>31,903</u>
Total Health and Human Services Fund		<u>2,336,275</u>
Debt Service Fund,		
Health and Human Service Fund	<u>262,750</u>	
Capital Projects Fund:		
General Fund	2,875,496	
Health and Human Services Fund,	<u>31,903</u>	
Total Capital Projects Fund	<u>2,907,399</u>	
Non-Major Funds,		
General Fund	<u>806,819</u>	<u>1,541,118</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
Internal Service Fund, General Fund		<u>\$ 20,024</u>
Agency Fund, General Fund		<u>2,133,859</u>
Totals	<u>\$9,713,591</u>	<u>\$9,713,591</u>

The amounts due to the General Fund are generally for payroll. The General Fund owed the Capital Projects Fund for a short-term advance. All of these items were repaid in 2007.

Interfund transfers in 2006 are summarized as follows:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund:		
Debt Service Fund		\$10,412,795
Capital Projects Fund	\$ 2,856,077	
Non-Major Funds	265,428	1,261,822
Enterprise Fund	<u>202,121</u>	<u>2,137,844</u>
Total General Fund	<u>\$ 3,323,626</u>	<u>\$13,812,461</u>
Health and Human Services Fund, Debt Service Fund		<u>\$ 630,787</u>
Debt Service Fund:		
General Fund	\$10,412,795	
Capital Projects Fund	8,282,316	
Health and Human Services Fund	630,787	
Non-Major Funds	605,502	
Enterprise Fund	<u> </u>	<u>\$ 618,252</u>
Total Debt Service Fund	<u>\$19,931,400</u>	<u>\$ 618,252</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
 NOTES TO FINANCIAL STATEMENTS

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
Capital Projects Fund:		
General Fund		\$ 2,856,077
Debt Service Fund		8,282,316
Enterprise Fund	<u>\$ 4,983,177</u>	<u> </u>
Total Capital Projects Fund	<u>\$ 4,983,177</u>	<u>\$11,138,393</u>
Non-Major Funds:		
General Fund	\$ 1,261,822	\$ 265,428
Debt Service Fund	<u> </u>	<u>605,502</u>
	<u>\$ 1,261,822</u>	<u>\$ 870,930</u>
Enterprise Fund:		
Governmental Activities	\$ 7,133,132	
General Fund	2,137,844	\$ 202,121
Debt Service Fund	618,252	
Capital Projects Fund	<u> </u>	<u>4,983,177</u>
Total Enterprise Fund	<u>\$ 9,889,228</u>	<u>\$5,185,298</u>

Transfers in to the General Fund were used to cover various expenditures, principally to fund the Pension Fund. Transfers out by the General Fund were primarily for debt service and payroll.

Transfers out by the Health and Human Services Fund were primarily used for debt service.

Transfers in to the Non-Major Funds were primarily used for culture and education, while transfers out were primarily for debt service.

Transfers to the governmental activities from the Enterprise Fund were to transfer land and debt retained by the County after the sale of Montage Ski Resort (Note 5).

DUE FROM/TO COMPONENT UNITS

At December 31, 2006, the County owed the County of Lackawanna Transit System Authority ("COLTS") \$551,959 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2006, the amounts shown in the financial statements do not agree.

The County has advanced \$12,450,743 to the Multi Purpose Stadium Authority of Lackawanna County ("MPSA"), primarily to fund MPSA's debt service payments and capital projects. 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.

14. SUBSEQUENT EVENT

On October 1, 2007 the County issued \$21,090,000 (Series A of 2007), and \$33,735,000 (Series B of 2007) of general obligation bonds. The proceeds of Series A and B bonds were used to currently refund a portion of the County's Series A and B of 2004, and Series B of 1999 general obligation bonds and to finance various capital projects.

On April 11, 2008 the County terminated the basis swaps in its Series B of 2004, Series B of 2005, and Series A of 2006 general obligation bonds. The County received cash consideration of \$1,100,000 upon termination.

15. RESTATEMENT OF NET ASSETS/FUND BALANCE

GOVERNMENTAL ACTIVITIES

Net assets of the governmental activities were increased \$2,945,792 at January 1, 2006 to correct an error in the reporting of bond issue costs on various bond issues in prior years. Had the error not been made, change in net assets for 2005 of the governmental activities would have decreased by \$100,946.

Net assets of the governmental activities were increased by \$1,370,248 at January 1, 2006 to correct an error in the reporting of deferred refunding charges for the Series A of 1997 and Series A of 2002 Bonds in the prior year. Had the error not been made, change in net assets for 2005 of the governmental activities would have increased by \$1,278,898.

Net assets of the governmental activities were decreased by \$12,136,002 at January 1, 2006 to correct an error in the reporting of Capital Assets in the prior year. Had the error not been made, the change in net assets for 2005 of the governmental activities would have decreased by \$12,136,002.

The fund balance of the Capital Projects Fund and net assets of the governmental activities were increased by \$3,083,213 to correct an error in the recording of accounts payable in the prior year. Had the error not been made, the change in fund balance for the Capital Projects Fund for 2005, and the change in net assets for 2005 of the governmental activities would have increased by \$3,083,213.

Net assets of the governmental activities were increased by \$1,230,689 to correct an error in the recording of the Net Pension Obligation in the prior year. Had the error not been made, the change in net assets for 2005 of the governmental activities would have increased by \$1,230,689.

BUSINESS-TYPE ACTIVITIES

Net Assets of the Enterprise Fund was increased by \$146,046 to correct an error in the recording of the bond issue costs on the 2004 Series A bond issue. Had the error not been made, the change in net assets for the 2005 Enterprise Fund would have decreased by \$14,790.

Net Assets of the Enterprise Fund was decreased by \$648,155 to correct an error in the recording of deferred refunding charges for the current refunding of the Series of 1994 Bonds. Had the error not been made, the change in net assets for the 2005 enterprise fund would have increased by \$64,542.

17. NEW ACCOUNTING PRONOUNCEMENT

In July 2004, the GASB issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for state and local employers that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). As defined in GASB Statement No. 45, OPEB are (1) postemployment healthcare benefits and (2) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan.

The County has not yet determined the effect of the adoption GASB Statement No. 45 on its financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CASH BASIS) - GENERAL, LIQUID FUELS AND DEBT SERVICE FUNDS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			LIQUID FUELS FUND			DEBT SERVICE FUND		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:									
Taxes	\$42,596,107	\$44,274,983	\$ 1,678,876				\$11,209,844	\$10,412,795	\$ (797,049)
Payments in-lieu of taxes	212,730	201,659	(11,071)						
Licenses and permits	16,000	-	(16,000)						
Grants	19,759,759	17,694,790	(2,064,969)	\$ 845,000	\$1,093,286	\$248,286			
Charges for services	12,482,145	16,644,493	4,162,348						
Interest and rent	564,545	966,827	422,282	9,000	34,130	25,130			
Fines and forfeits	75,000	15,903	(59,097)						
Contributions and other	1,550,950	175,982	(1,374,968)	10,000	20,460	10,460	500,000	136,869	(363,131)
Total receipts	77,257,236	79,994,637	2,737,401	864,000	1,147,876	283,876	11,709,844	10,549,664	(1,160,180)
DISBURSEMENTS:									
General government - administrative	29,074,714	24,451,040	4,623,674						
General government - judicial	12,746,901	13,784,564	(1,037,663)						
Public safety	22,221,970	23,071,120	(849,150)						
Public works	849,245	181,826	667,419	1,304,805	1,502,849	(198,044)			
Human services	30,534,815	15,326,653	15,208,162						
Culture and recreation	4,324,002	4,504,264	(180,262)						
Conservation and development	481,777	406,666	75,111						
Miscellaneous expense	1,033,245	810,552	222,693						
Debt service	-	-	-				12,395,500	19,978,215	(7,582,715)
Total disbursements	101,266,669	82,536,675	18,729,994	1,304,805	1,502,849	(198,044)	12,395,500	20,690,521	(8,295,021)
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(24,009,433)	(2,542,038)	21,467,395	(440,805)	(354,973)	85,832	(685,656)	(10,140,857)	(10,826,513)
OTHER FINANCING SOURCES (USES):									
Transfers in	22,937,670	6,896,828	(16,040,842)					9,518,605	9,518,605
Transfers out	-	(3,399,666)	(3,399,666)					(618,252)	(618,252)
Total other financing sources (uses), net	22,937,670	3,497,162	(19,440,508)					8,900,353	8,900,353
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND OTHER FINANCING SOURCES	(1,071,763)	955,124	2,026,887	(440,805)	(354,973)	85,832	(685,656)	(1,240,504)	(554,848)
FUND BALANCE, BEGINNING,	1,076,371	472,858	(603,513)	859,382	863,040	3,658	782,325	3,908,000	3,125,675
FUND BALANCE, ENDING	\$ 4,608	\$ 1,427,982	\$ 1,423,374	\$ 418,577	\$ 508,067	\$ 89,490	\$ 96,669	\$ 2,667,496	\$ 2,570,827

COUNTY OF LACKAWANNA, PENNSYLVANIA

NOTE TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION UNAUDITED DECEMBER 31, 2006

1. RECONCILIATION OF BUDGETARY CASH BASIS TO GAAP BASIS

A reconciliation of the County's budgetary cash basis to GAAP basis for 2006 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)	\$ 955,124	\$(354,973)	\$(1,240,504)
Reversal of prior year:			
Receivables	(16,377,018)		
Liabilities	9,117,566		
Record current year:			
Receivables	16,365,539	45,723	
Liabilities	<u>(11,735,405)</u>	<u> </u>	<u> </u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$(1,674,194)</u>	<u>\$(309,250)</u>	<u>\$(1,240,504)</u>

For budget purposes, transfers from the Health and Human Service funds to reimburse expenditures were reported gross. The actual transfers were reported net of expenses.

COUNTY OF LACKAWANNA, PENNSYLVANIA

**REQUIRED SUPPLEMENTAL PENSION INFORMATION
UNAUDITED
DECEMBER 31, 2006**

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((b-a)/c)
01/01/05	\$ 94,225,794	\$ 106,277,698	\$ 12,051,904	88.7%	\$ 43,311,008	27.8%
01/01/06	\$ 104,954,131	\$ 114,543,257	\$ 9,589,126	91.6%	\$ 45,474,796	21.1%
01/01/07	\$ 118,608,487	\$ 124,198,042	\$ 5,589,555	95.5%	\$ 48,978,779	11.5%