

**County of Lackawanna, Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2014



**BAKER TILLY**

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# County of Lackawanna, Pennsylvania

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December 31, 2014

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## Independent Auditors' Report

Commissioners of Lackawanna County  
Scranton, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Department of Human Services Office of Youth and Family Services (a department of the General Fund), which represents 15.0% of the revenues of the General Fund and 9.0% of the revenues of the Governmental Activities. We did not audit the Lackawanna County Area Agency on Aging and Child Care Information Services of Lackawanna County (departments of the Health and Human Services Fund) and the Lackawanna County Commission on Drug and Alcohol Abuse (a blended component unit of the Health and Human Services Fund), which collectively represent 84.0%, 96.0%, and 97.0%, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 1.0%, 0.2%, and 13.0%, respectively, of the assets, net position, and revenues of the Governmental Activities. We did not audit the financial statements of the Pension Trust Fund which represents 97.0%, 100% and 100% of the assets, net position, and revenues, respectively, of the Fiduciary Fund. Finally, we did not audit the Scranton Lackawanna Health and Welfare Authority, the Lackawanna County Library System, the Lackawanna County Redevelopment Authority, the Lackawanna County River Basin Sewer Authority, the Lackawanna County Transit System Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority which represent 100% of the assets, net position and revenues of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lackawanna County Department of Human Services Office of Children and Family Services, Lackawanna County Area Agency on Aging, Child Care Information Services of Lackawanna County, Lackawanna County Commission on Drug and Alcohol Abuse, Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Lackawanna County Redevelopment Authority, Lackawanna County River Basin Sewer Authority, Lackawanna County Transit System Authority, Multi-purpose Stadium Authority of Lackawanna County and Lackawanna County Performing Arts Center Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Scranton Lackawanna Health and Welfare Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority, reported as discretely presented component units, and the Pension Trust Fund, reported as a blended fiduciary fund, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As disclosed in Notes 1 and 11 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* in 2014, to conform with accounting principles generally accepted in the United States of America. The County expanded its note disclosures related to its pension plan. Our opinion, based on our audit and the reports of other audits, was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 13, the budgetary comparison information on page 59 and the schedule of funding progress for the Pension Trust Fund on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated September 30, 2015 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Wilkes-Barre, Pennsylvania  
September 30, 2015

# **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

This Management's Discussion and Analysis ("MD&A") is intended to provide a narrative overview and analysis of the financial activities of the County of Lackawanna, Pennsylvania (the "County") for the year ended December 31, 2014 compared to the year ended December 31, 2013. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

## **Financial Highlights**

Overall, the County's liabilities exceed the assets by \$98,799,115 at December 31, 2014.

General Fund revenues exceeded expenses in 2014 by \$5,558,103. This increased the General Fund balance from \$7,410,005 at December 31, 2013 to a fund balance of \$12,968,108 at December 31, 2014.

The County Commissioners continued along the path of fiscal constraint through responsible management of expenses as well as increasing realizable revenues, without impairing the provision of essential services to the residents of the County. There was no need, in 2014, to raise taxes due to the continued fiscal restraint spearheaded by the County Commissioners. The County's financial position has become more stable, with operating surpluses being attained in each of the three most recently completed years, 2012, 2013 and 2014. The Commissioners have continued along the path begun in 2008 when they undertook a governmental reorganization in order to more efficiently manage all of the diverse departments within Lackawanna County government. That reorganization resulted in a significant decrease of County personnel as well as more efficient and streamlined government. The Commissioners are committed to continuing to look at the way Lackawanna County does business and to make the necessary changes needed to maintain the operational efficiencies which have been achieved.

With the continued emphasis on governmental reorganization and the fiscal restraints implemented by the Commissioners the County was able to hold the line on taxes and the Commissioners were able to present both the 2014 and 2015 County budgets without any real estate tax increase, and the Commissioners, based on continued operating surpluses in each of the last three years, expect to present a 2016 County Budget, without the need for an increase in real estate taxes.

## **Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net position (deficit) and the statement of activities. The statement of net position (deficit) reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net position (deficit) changed during the most recent fiscal year. All changes in the net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned and unused compensated absences.)

The government-wide financial statements can be found on pages 14-15 of this report.

# County of Lackawanna, Pennsylvania

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

## Fund Financial Statements

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

## Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the County's major funds, which are the General Fund, Health and Human Services Fund, Debt Service Fund and the Capital Projects Fund. All of the governmental funds that are not considered individually significant have been aggregated and are collectively reported under the caption "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General and Debt Service Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 59.

The basic fund financial statements can be found on pages 16-22 of this report.

## Fiduciary Funds

The County accounts for the assets held under trust or in an agent capacity in fiduciary funds. Assets held in trust in the County retirement plan are accounted for in the Pension Trust Fund. Assets held in a custodial or agent function are accounted for in the Agency Fund. Fiduciary funds are not reported in the government-wide financial statements since they are not available to support the County operation.

The basic Fiduciary Fund financial statements can be found on pages 23-24 of this report.

# County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-58 of this report.

### Governmental Activities Condensed Statement of Net Position (Deficit) December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and other assets	\$ 72,697,359	\$ 57,982,544
Capital assets, net	<u>119,915,849</u>	<u>116,965,761</u>
Total assets	<u>\$ 192,613,208</u>	<u>\$ 174,948,305</u>
<b>Liabilities, Deferred Inflows of Resources</b>		
Current liabilities	\$ 36,921,672	\$ 34,519,149
Long term and other liabilities	<u>254,490,651</u>	<u>253,757,778</u>
Total liabilities	<u>\$ 291,412,323</u>	<u>\$ 288,276,927</u>
<b>Net Position (Deficit)</b>		
Net investment in capital assets	\$ (76,252,290)	\$ (77,136,892)
Restricted	3,643,725	2,978,769
Unrestricted	<u>(26,190,550)</u>	<u>(39,170,499)</u>
Total net deficit	<u>\$ (98,799,115)</u>	<u>\$ (113,328,622)</u>

Total Assets of the Lackawanna County primary government increased by \$17,664,903 from 2013 to 2014 from \$174,948,305 to \$192,613,208. This amounts to a 10.1% increase.

The County's Total Liabilities increased by \$3,135,396 in 2014, which represents a 1.09% increase.

The most notable changes in the County's "Governmental Activities Condensed Statement of Net Position (Deficit)" include the County's Cash and Short Term Investments increased by approximately \$6.8 million, Accounts Receivable increased by approximately \$2.3 million, and the County's Capital assets, net of depreciation, increased by approximately \$2.9 million. The increases in Cash and Short Term Investments as well as the increase in Accounts Receivable, while Current Liabilities only increased by \$1.4 million, were primarily due to the fact that the County had an operating surplus of \$5.6 million during 2014, The increase in the County's Capital Assets, net of depreciation was for the most part due to the County's build out and implementation of its wireless network for which the County incurred a cost of approximately \$2.8 million.

# County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

## Condensed Statement of Governmental Activities Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Governmental Activities</b>		
Program Revenues:		
Charges for services	\$ 27,170,729	\$ 27,500,272
Operating Grants and contributions	43,620,818	43,751,491
Capital grants and contributions	3,423,355	3,091,057
General Revenues:		
Tax levy for general purposes, net	80,201,039	78,954,133
Change in fair value of investment derivative	1,779,918	(211,749)
Contributions and other, net	1,269,002	702,909
Total revenues	<u>157,464,861</u>	<u>153,788,113</u>
Expenses:		
General government - administrative	21,505,605	21,897,449
General government - judicial	22,423,037	20,619,583
Corrections	35,427,874	32,587,748
Public works and enterprises	669,610	3,116,936
Human services	36,099,746	34,024,905
Culture and recreation	6,692,757	6,295,452
Conservation and development	3,013,990	4,096,459
Depreciation	4,934,122	5,081,552
Interest-long term debt	11,819,599	12,152,580
Total expenses	<u>142,586,340</u>	<u>139,872,664</u>
Changes in net position	14,878,521	13,915,449
Net deficit, beginning, as restated	<u>(113,677,636)</u>	<u>(127,244,071)</u>
Net deficit, ending	<u>\$ (98,799,115)</u>	<u>\$ (113,328,622)</u>

The County's Net Deficit, ending reflected in the "Condensed Statement of Governmental Activities" decreased by \$14.9 million between December 31, 2013 and December 31, 2014. This net decrease in Net Deficit, ending was a result of revenues exceeding expenditures by \$14.9 million. The 2013 Net Deficit, ending had decreased by \$13.9 million. The reasons for these decreases were the continued commitment by the County Commissioners to hold the line on expenses, while aggressively looking for innovative revenue streams. The principle factors contributing to the 2014 decrease were the General Purpose tax levy increased by \$1.2 million due principally to increases in property assessed values, and the change in the fair value of investment derivative increased by \$2.0 million. While expenditures for General Government-judicial, Corrections, and Human Services increased significantly between 2013 and 2014, those increases were offset by savings in public works and Conservation and Development.

# County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

## Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2013.

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 57,956,375	\$ 57,108,472	\$ 847,903	1.48	%
Intergovernmental	17,014,090	16,754,048	260,042	1.55	
Charges for service	21,478,791	19,522,678	1,956,113	10.02	
Other	373,315	341,411	31,904	9.34	
Transfers in	60,205	830,696	(770,491)	-92.75	
Total revenue	<u>\$ 96,882,776</u>	<u>\$ 94,557,305</u>	<u>\$ 2,325,471</u>	<u>2.46</u>	<u>%</u>

Total revenue in the General Fund increased by \$2,325,471 or approximately 2.46% from 2013 to 2014.

The increase in revenue between 2013 and 2014 is a result of the tax levy for general fund use increasing by \$847,903 principally due to an increase in the assessed value of taxable properties, and an increase of \$1,956,113 in Charges for service. The increase in Charges for Services includes a \$991,531 increase in revenue from the State for housing parole violators at the County prison, \$296,690 increase in Court costs and fines and \$262,603 in additional fees collected from constituents paying delinquent taxes.

The following represents a summary of General Fund expenditures, by function, along with changes from 2013.

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government - administrative	\$ 17,068,108	\$ 18,492,133	\$ (1,424,025)	( 7.70)	%
General government - judicial	19,488,140	17,850,384	1,637,756	9.17	
Public safety - corrections	31,258,990	28,654,905	2,604,085	9.09	
Public works	66,376	56,790	9,586	16.88	
Health and human services	15,324,382	14,376,467	947,915	6.59	
Culture and recreation	2,409,542	2,457,283	(47,741)	( 1.94)	
Community and economic development	399,793	382,405	17,388	4.55	
Miscellaneous	752,648	801,846	(49,198)	(6.14)	
Debt service	60,191	109,083	(48,892)	(44.82)	
Other	-	526,603	(526,603)	(100.00)	
Transfers	4,496,503	4,900,553	(404,050)	( 8.24)	
Total expenses	<u>\$ 91,324,673</u>	<u>\$ 88,608,452</u>	<u>\$ 2,716,221</u>	<u>3.07</u>	<u>%</u>

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

Total expenses in the General Fund increased by \$2,716,221 or approximately 3.07% from 2013 to 2014.

Expenses within the general government - administrative category decreased by \$1,424,025 because of a number of reasons. Bad Debt expense included in this category is \$1,122,944 less than 2013 because the County's collection of delinquent real estate taxes increased in 2014 and so there was a smaller allowance for uncollectable accounts and consequently bad debt expense is considerably less in 2014 than 2013. Pension expense decreased by \$1,710,606 in 2014 compared to 2013 because the County's Annual Required Contribution for 2014 was less than 2013's ARC by approximately \$1.6 million.

General Government-judicial increased by \$1,637,756 due to increases in salaries and wages, mostly resulting from arbitration awards for the Probation offices, the County Detectives, and the County Sheriff Deputies. While the arbitration awards were issued during 2015, the County recorded the retroactive cost of the awards at December 31, 2014.

Public Safety-Corrections increased by \$2,604,085 primarily due to increases in salaries and wages as a result of settling, through arbitration, a new contract for the unionized employees at the County prison. Once again, while the arbitration award occurred during 2015, the County recorded the retroactive portion as of December 31, 2014. In addition there were some payroll costs related to the housing of State Parole violators, however, the additional revenue derived from housing the State Parole Violators exceeded \$1 million while we estimate the additional payroll cost to be less than ¼ of that amount. There were also additional repair costs incurred to maintain the Prison's outdated HVAC system, however, the County, at the end of 2014, entered into a guaranteed energy savings contract, which includes replacing the Prison's HVAC system in 2015.

Health and Human Services expenses increased by \$947,915 between 2013 and 2014 due principally to increases in employee salary, wages and benefits due to hiring additional case workers in the County's Office of Youth and Family Services. While salaries, wages and benefits increased from 2013 to 2014, that department is largely funded through State and Federal sources, so approximately 80% in the increased expenses were received and recognized as revenue during 2014.

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2014:

	<b>2014 Budget</b>	<b>2014 Actual</b>	<b>Favorable (Unfavorable)</b>	<b>% Change</b>	
Taxes	\$ 55,889,220	\$ 57,956,375	\$ 2,067,155	3.70	%
Intergovernmental	16,899,626	17,014,090	114,464	0.68	
Charges for service	19,184,871	21,478,791	2,293,920	11.96	
Other	273,845	373,315	99,470	36.32	
Transfers in	-	60,205	60,205	N/A	
Total revenue	<u>\$ 92,247,562</u>	<u>\$ 96,882,776</u>	<u>\$ 4,635,214</u>	<u>5.02</u>	<u>%</u>

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

Overall, the County's General Fund revenue exceeded its budget by \$4,635,214. The reason for the variance was that the County's tax collection rates in 2014, 92.8%, were better than anticipated when the Budget was prepared, 89.5%. In addition, Charges for Services reflects a positive variance because the County Prison revenue from the State for housing State Parole violators exceeded the 2014 Budget by \$1,452,755 and the Prison revenue from housing prisoners for the Federal Marshalls' Service exceeded the 2014 Budget by \$325,751.

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2014:

	<u>2014 Budget</u>	<u>2014 Actual</u>	<u>Favorable (Unfavorable)</u>	<u>% Change</u>	
General government - administrative	\$ 18,270,155	\$ 17,068,108	\$ 1,202,047	7.04	%
General government - judicial	18,712,834	19,488,140	(775,306)	(3.98)	
Public safety - corrections	31,997,987	31,258,990	738,997	2.36	
Public works	62,452	66,376	(3,924)	(5.91)	
Health and human services	15,346,792	15,324,382	22,410	0.15	
Culture and recreation	2,732,255	2,409,542	322,713	13.39	
Community and economic development	392,250	399,793	(7,543)	(1.89)	
Miscellaneous	856,149	752,648	103,501	13.75	
Debt service	150,000	60,191	89,809	149.21	
Transfers	5,316,381	4,496,503	819,878	18.23	
Total expenses	<u>\$ 93,837,255</u>	<u>\$ 91,324,673</u>	<u>\$ 2,512,582</u>	<u>2.75</u>	<u>%</u>

The total expenses for 2014 decreased \$2,512,582 compared to the amount budgeted for 2014. During 2014, the Commissioners continued to stress to department heads the need to continue to be frugal as the County continues along the path of restoring financial stability.

The General government – administrative decreased by a large amount because of a number of issues. First the County budgeted \$560,000 in this category as Subsidy expense to account for the cost of union settlements that were anticipated when the Budget was prepared, however, the amounts in the actual settlements were posted to salary and wage expense in various County segments when the settlements were finalized. In addition the County budgeted, in Economic Development, \$750,000 for its Community Reinvest program, but only expended \$291,000 for that program in 2014, as well as \$478,000 budgeted for Infrastructure improvements, but only expended \$147,000 during 2014.

### Health and Human Services Fund (Major Fund)

The Health and Human Services Fund accounts for revenues and expenses for the provision of social services within the County. These services include Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund revenues and expenses increased by \$1,719,282 and \$1,268,205 respectively.

## **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

The Health and Human Service Fund has a fund balance of \$151,736. This is an increase of \$146,788 from the 2013 restated final ending fund balance of \$4,948.

### **Debt Service Fund (Major Fund)**

The Debt Service fund accounts for resources accumulated for the payment of long term obligations, primarily bonds. A portion of the County real estate tax levy is used to fund the expenditures within this fund as well as transfers from other funds for which the specific debt was issued.

See Note 6 for additional information regarding the County's outstanding debt.

### **Capital Projects Fund (Major Fund)**

The County Capital Projects fund balance increased from \$4,415,703 at December 31, 2013 to \$9,309,969 at December 31, 2014. The principal increase in the County's Capital Projects Fund in 2014 was due to borrowing \$7,456,433 to fund the County's Guaranteed Energy Savings contract, which will be spent principally to fund HVAC improvements and water controls improvements at the County Prison, as well as lighting improvements throughout County facilities. The County completed the borrowing for this project in December of 2014, however, the work on the project will not begin until 2015.

### **Internal Service Fund (Proprietary Fund)**

The Internal Service Fund accounts for the County's self-insured workers compensation program. This program is monitored by the Commonwealth of Pennsylvania Bureau of Labor and Industry. The Bureau of Labor and Industry requires that the County maintains an irrevocable trust account for the payment of future benefits. The County's actuarially determined reserve/estimate for unpaid losses amounted to \$1,552,871 at December 31, 2014. The fund's total assets at December 31, 2014 were \$1,383,980, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of \$168,891 as of December 31, 2014. This is a decrease of \$130,699 in the fund deficit of \$299,590 reported at December 31, 2013.

### **Pension Trust Fund**

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$3,693,158 during 2014 resulting in Plan net position of \$161,487,164 at December 31, 2014. Plan net position was \$157,794,006 at December 31, 2013.

Plan contributions by members amounted to \$3,749,484 and \$3,755,272 in 2014 and 2013, respectively. Benefits paid to retired members were \$8,157,366 and \$8,674,573 in 2014 and 2013, respectively.

### **Agency Fund**

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,475,282 in that role as of December 31, 2014.

## County of Lackawanna, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

### Capital Assets

The County's investment in capital assets at December 31, 2014 and 2013, net of accumulated depreciation, was \$119,915,849 and \$116,965,761 for its governmental activities, respectively. Capital assets consist primarily of land, buildings, equipment and infrastructure. The following is a summary of capital assets at December 31, 2014 and 2013:

#### Capital Assets, Governmental Activities December 31, 2014

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost Less Accumulated Depreciation</u>
County-wide:			
Land	\$ 3,533,235	\$ -	\$ 3,533,235
Infrastructure	46,229,133	29,789,259	16,439,874
Investment in airport	8,727,567	3,530,527	5,197,040
Buildings and improvements	117,635,498	33,968,222	83,667,276
Machinery and equipment	44,168,457	36,344,233	7,824,224
Construction-in-process	3,254,200	-	3,254,200
Total county-wide	<u>\$ 223,548,090</u>	<u>\$ 103,632,241</u>	<u>\$ 119,915,849</u>

#### December 31, 2013

County-wide:			
Land	\$ 3,533,235	\$ -	\$ 3,533,235
Infrastructure	38,020,998	29,420,189	8,600,809
Investment in airport	8,727,567	3,369,301	5,358,266
Buildings and improvements	115,597,518	31,096,443	84,501,075
Machinery and equipment	39,330,338	34,824,397	4,505,941
Construction-in-process	10,466,435	-	10,466,435
Total county-wide	<u>\$ 215,676,091</u>	<u>\$ 98,710,330</u>	<u>\$ 116,965,761</u>

Detailed information about the County's capital assets can be found in Note 5 within the accompanying notes to the financial statements.

### Long Term Debt

As of December 31, 2014, the County's net general obligation debt was \$229,065,212 net of related discount. Detailed information about the County's long-term debt can be found in Note 6 in the accompanying notes to the financial statements.

## **County of Lackawanna, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2014

### **Economic Condition and Outlook**

The County administration continues to closely monitor its debt portfolio. During 2014 the County refinanced some high interest rate bonds that were issued in 2004 with a lower interest rate bank loan, and will continue to pursue possibilities to further limit variable interest rate exposure and its exposure to derivative instruments, and take advantage of what is still a favorable interest rate environment.

The Commissioners have tasked the administration with continuous review of all County operations. The Commissioners also continue to streamline current County government where possible including reducing its work force without cutting or sacrificing services to the taxpayers, utilizing innovative energy savings programs, as evidenced by the Guaranteed Energy Savings contract, technological innovations, restructuring purchasing policies, as well as, continuing the County's innovative vehicle and travel policies.

The County's 2014 budget included no real estate tax increase. In 2013 the Commissioners developed innovative new Economic Development programs, the Community Reinvest program and the SBA Loan Fee Waiver program, with the intent of bringing new jobs to the County and retaining jobs that already exist within the County. As of December 31, 2014, \$493,213 of the 2014 funds dedicated to the Commissioners' Economic Development programs remained unspent, and those funds are classified in the accompanying financial statements as "Fund Balance-Assigned". The Commissioners intend to continue to fund these initiatives with the intent of strengthening the local economy.

The Commissioners have continued in their commitment to allocate substantial funds for the upgrade and replacement of the aging County infrastructure. The Commissioners have appropriated \$1,250,000 from the 2014 Operating Budget to fund this initiative. In addition the Commissioners have continued their commitment to expansion of the County Parks and Recreation system. The Commissioners are also developing incubator programs in order to assist the community in development of small business in both the retail and service sectors. The Commissioners are expecting their Economic Development initiatives to pay dividends in the future success and sustainability of the County.

The County will continue to pursue new and innovative programs to further the Commissioners vision for enhancing the economic climate of the County and will continue to allocate funds in its annual budget to further these initiatives.

### **Requests for Information**

Questions concerning any of the information contained in this report or requests for additional information should be addressed to the office of Lackawanna County Commissioners, County of Lackawanna, 200 Adams Avenue, Scranton, PA 18503.

County of Lackawanna, Pennsylvania

Statement of Net Position

December 31, 2014

Assets	Governmental Activities	Component Units
<b>Current Assets</b>		
Cash and cash equivalents	\$ 23,004,794	\$ 15,299,710
Restricted cash	-	7,662,404
Investments	1,303,887	171,225
Restricted investments	-	1,863,683
Accounts receivable, net	1,809,790	50,211,254
Inventory	27,820	-
Due from agency fund	3,220,452	-
Due from other governments, net	10,146,374	6,310,011
Due from component units	12,345,896	-
Taxes receivable, net	9,196,980	364,860
Other assets	393,199	842,114
Total current assets	61,449,192	82,725,261
<b>Capital Assets, Net</b>	119,915,849	129,356,256
<b>Assets Held for Capital Projects</b>	11,248,167	-
<b>Other Noncurrent Assets</b>	-	1,315,469
Total assets	<u>\$ 192,613,208</u>	<u>\$ 213,396,986</u>
<b>Liabilities and Net Position (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,667,528	\$ 966,266
Accrued expenses	13,893,270	818,697
Current portion:		
Net pension obligation	2,478,622	-
Bond and notes payable	8,004,582	2,692,932
Capital lease obligations	109,482	-
Compensated absences	245,464	196,866
Due to other governments	1,007,900	-
Due to primary government	-	9,028,473
Unearned revenues	961,953	8,027,077
Escrow liability	-	4,324,814
Claims payable	1,552,871	-
Other liabilities	-	78,344
Total current liabilities	36,921,672	26,133,469
<b>Noncurrent Liabilities</b>		
Bonds and notes payable, net	221,060,630	43,512,552
Nonrecourse debt issues	-	47,652,179
Net pension obligation	22,500,012	-
Investment derivative - pay variable / receive variable basis swap	8,022,069	-
Investment derivative - pay fixed / receive variable basis swap	-	881,481
Compensated absences	2,907,940	895,872
Total liabilities	<u>291,412,323</u>	<u>119,075,553</u>
<b>Deferred Inflows of Resources</b>		
Deferred service concession arrangement receipts	-	1,152,426
<b>Net Position (Deficit)</b>		
Net investment in capital assets	(76,252,290)	78,842,887
Restricted	3,643,725	782,887
Unrestricted	<u>(26,190,550)</u>	<u>13,543,233</u>
Total net position (deficit)	<u>(98,799,115)</u>	<u>93,169,007</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 192,613,208</u>	<u>\$ 213,396,986</u>

See notes to financial statements

**County Of Lackawanna, Pennsylvania**

Statement of Activities

Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
<b>Primary Government</b>						
Governmental activities:						
General government - administrative	\$ (21,505,605)	\$ 7,712,140	\$ 433,783	\$ -	\$ (13,359,682)	
General government - judicial	(22,423,037)	6,343,725	1,512,012	-	(14,567,300)	
Public safety - corrections	(35,427,874)	8,138,863	4,780,787	-	(22,508,224)	
Public works and enterprises	(669,610)	59,515	854,311	-	244,216	
Health and human services	(36,099,746)	261,250	35,130,017	277,508	(430,971)	
Culture and recreation	(6,692,757)	4,057,677	-	-	(2,635,080)	
Community and economic development	(3,013,990)	597,559	909,908	3,145,847	1,639,324	
Unallocated depreciation	(4,934,122)	-	-	-	(4,934,122)	
Interest on long-term debt	(11,819,599)	-	-	-	(11,819,599)	
Total governmental activities	<u>\$ (142,586,340)</u>	<u>\$ 27,170,729</u>	<u>\$ 43,620,818</u>	<u>\$ 3,423,355</u>	<u>(68,371,438)</u>	
<b>Component Units</b>						
Scranton Lackawanna Health and Welfare Authority	\$ (10,277,757)	\$ 39,336	\$ -	\$ -		\$ (10,238,421)
Lackawanna County Library System	(5,347,701)	220,000	951,615	-		(4,176,086)
Lackawanna County Redevelopment Authority	(241,366)	-	-	-		(241,366)
Lackawanna County River Basin Sewer Authority	(8,541,834)	8,545,646	-	-		3,812
County of Lackawanna Transit System Authority	(13,080,527)	4,117,159	7,568,465	2,116,755		721,852
Multi-Purpose Stadium Authority of Lackawanna County	(3,132,185)	-	-	1,021,616		(2,110,569)
Lackawanna County Performing Arts Center Authority	(673,556)	550,000	-	-		(123,556)
Total component units	<u>\$ (41,294,926)</u>	<u>\$ 13,472,141</u>	<u>\$ 8,520,080</u>	<u>\$ 3,138,371</u>		<u>(16,164,334)</u>
<b>General Revenues (Expenses)</b>						
Taxes levied for general purposes, net					80,201,039	4,711,276
Rental income					-	10,944,561
Interest income					223,932	170,147
Contributions and other revenue					279,876	944,368
Miscellaneous revenue					781,710	-
Change in fair value of investment derivative					1,779,918	-
Loss on sale of assets					(16,516)	-
Total general revenues (expenses)					<u>83,249,959</u>	<u>16,770,352</u>
<b>Change in Net (Deficit) Position</b>					<u>14,878,521</u>	<u>606,018</u>
<b>Net (Deficit) Position, Beginning</b>						
As previously reported					(113,328,622)	92,614,591
Restatement					<u>(349,014)</u>	<u>(51,602)</u>
As restated					<u>(113,677,636)</u>	<u>92,562,989</u>
<b>Net (Deficit) Position, Ending</b>					<u>\$ (98,799,115)</u>	<u>\$ 93,169,007</u>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Balance Sheet  
 Governmental Funds  
 December 31, 2014

	General Fund	Health And Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 15,125,108	\$ 1,459,819	\$ 1,892,895	\$ 11,223,247	\$ 4,526,972	\$ 34,228,041
Investments	-	-	-	24,920	-	24,920
Inventory	27,820	-	-	-	-	27,820
Due from other funds	5,806,515	746,013	3,000,000	560,830	28,083	10,141,441
Other receivables	1,038,413	-	-	-	771,377	1,809,790
Due from other governments, net	3,244,380	657,985	2,225,229	3,150,000	868,780	10,146,374
Prepaid expenses	280,879	2,531	-	-	29,696	313,106
Taxes receivable, net	9,196,980	-	-	-	-	9,196,980
<b>Total</b>	<b>\$ 34,720,095</b>	<b>\$ 2,866,348</b>	<b>\$ 7,118,124</b>	<b>\$ 14,958,997</b>	<b>\$ 6,224,908</b>	<b>\$ 65,888,472</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 3,501,726	\$ 2,088,205	\$ -	\$ 1,880,013	\$ 1,197,584	\$ 8,667,528
Accrued liabilities	3,505,708	119,831	94,450	-	212,104	3,932,093
Accrued pension	2,478,622	-	-	-	-	2,478,622
Due to other funds	1,354,223	179,668	327,183	3,671,015	1,388,900	6,920,989
Due to component units	-	49,214	-	-	-	49,214
Due to other governments	1,007,900	-	-	-	-	1,007,900
Unearned revenue	-	277,694	-	98,000	586,259	961,953
<b>Total liabilities</b>	<b>11,848,179</b>	<b>2,714,612</b>	<b>421,633</b>	<b>5,649,028</b>	<b>3,384,847</b>	<b>24,018,299</b>
Deferred Inflows of Resources						
Deferred tax revenue	9,903,808	-	-	-	-	9,903,808
<b>Fund Balances (Deficit)</b>						
Non-spendable	308,699	-	-	-	29,696	338,395
Restricted	-	777,883	6,696,491	9,309,969	3,061,894	19,846,237
Assigned	1,600,750	-	-	-	76,260	1,677,010
Unassigned	11,058,659	(626,147)	-	-	(327,789)	10,104,723
<b>Total fund balances</b>	<b>12,968,108</b>	<b>151,736</b>	<b>6,696,491</b>	<b>9,309,969</b>	<b>2,840,061</b>	<b>31,966,365</b>
<b>Total</b>	<b>\$ 34,720,095</b>	<b>\$ 2,866,348</b>	<b>\$ 7,118,124</b>	<b>\$ 14,958,997</b>	<b>\$ 6,224,908</b>	<b>\$ 65,888,472</b>

See notes to financial statements

## County of Lackawanna, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
December 31, 2014

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 31,966,365</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Net deficit of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.		(168,891)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		119,915,849
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unearned revenue in the funds.		9,903,808
Due from component units, consist of bonds and notes payable issued by the County and loaned to component units, are not due and receivable in the current period and therefore are not reported as receivables within the funds.		12,395,110
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:		
Bonds and notes payable, net	\$ 229,065,212	
Net pension obligation	22,500,012	
Capital lease obligation	109,482	
Compensated absences	<u>3,153,404</u>	
		(254,828,110)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(8,022,069)
Accrued litigation claims (included in accrued expenses).		(7,390,000)
Accrued interest payable is included in the statement of net position (included in accrued expenses).		<u>(2,571,177)</u>
<b>Total Deficit - Governmental Activities</b>		<b><u><u>\$ (98,799,115)</u></u></b>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds  
 Year Ended December 31, 2014

	<b>Major Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Health and Human Services Funds</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Non-Major Funds</b>	
<b>Revenues</b>						
Taxes	\$ 57,661,691	\$ -	\$ 20,050,004	\$ -	\$ 1,354,766	\$ 79,066,461
Payments in lieu of taxes	294,684	-	-	-	-	294,684
Intergovernmental	17,014,090	20,393,558	-	3,005,239	4,384,954	44,797,841
Charges for service	21,478,791	60,873	1,050,306	-	6,521,706	29,111,676
Court costs, fines and forfeitures	29,621	-	-	-	76,160	105,781
Interest and rent	2,604	2,306	197	1,392	4,489	10,988
Contributions and other	341,090	-	-	213,217	454,916	1,009,223
Total revenues	<u>96,822,571</u>	<u>20,456,737</u>	<u>21,100,507</u>	<u>3,219,848</u>	<u>12,796,991</u>	<u>154,396,654</u>
<b>Expenditures</b>						
Current:						
General government- administrative	17,068,108	17,186	16,523	13,082	142,015	17,256,914
General government - judicial	19,488,140	-	-	-	3,078,599	22,566,739
Public safety and corrections	31,258,990	-	-	-	4,664,315	35,923,305
Public works and enterprises	66,376	-	-	68,000	1,127,722	1,262,098
Health and human services	15,324,382	20,245,786	-	-	258,672	35,828,840
Culture and recreation	2,409,542	-	-	-	4,249,183	6,658,725
Community and economic development	399,793	-	-	-	1,060,460	1,460,253
Miscellaneous expenses	752,648	-	-	-	5,802	758,450
Debt service:						
Principal	-	-	8,094,199	-	-	8,094,199
Interest	60,191	-	12,020,653	-	-	12,080,844
Capital outlay	-	-	-	7,995,441	-	7,995,441
Total expenditures	<u>86,828,170</u>	<u>20,262,972</u>	<u>20,131,375</u>	<u>8,076,523</u>	<u>14,586,768</u>	<u>149,885,808</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>9,994,401</u>	<u>193,765</u>	<u>969,132</u>	<u>(4,856,675)</u>	<u>(1,789,777)</u>	<u>4,510,846</u>
<b>Other Financing Sources (Uses)</b>						
Note proceeds	-	-	2,587,000	7,665,433	-	10,252,433
Note issue costs	-	-	(42,000)	-	-	(42,000)
Payments to refunded bond agent	-	-	(2,545,000)	-	-	(2,545,000)
Gain on sale of assets	-	-	-	10,720	-	10,720
Transfers in	60,205	6,297	-	2,081,719	2,278,631	4,426,852
Transfers out	(4,496,503)	(53,274)	(210,425)	(6,931)	(555,823)	(5,322,956)
Total other financing sources (uses)	<u>(4,436,298)</u>	<u>(46,977)</u>	<u>(210,425)</u>	<u>9,750,941</u>	<u>1,722,808</u>	<u>6,780,049</u>
<b>Net Change in Fund Balance</b>	<u>5,558,103</u>	<u>146,788</u>	<u>758,707</u>	<u>4,894,266</u>	<u>(66,969)</u>	<u>11,290,895</u>
<b>Fund Balances, Beginning</b>						
As previously reported	7,410,005	353,962	5,937,784	4,415,703	2,907,030	21,024,484
Restatement	-	(349,014)	-	-	-	(349,014)
As restated	<u>7,410,005</u>	<u>4,948</u>	<u>5,937,784</u>	<u>4,415,703</u>	<u>2,907,030</u>	<u>20,675,470</u>
<b>Fund Balances, Ending</b>	<u>\$ 12,968,108</u>	<u>\$ 151,736</u>	<u>\$ 6,696,491</u>	<u>\$ 9,309,969</u>	<u>\$ 2,840,061</u>	<u>\$ 31,966,365</u>

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  
Year Ended December 31, 2014

<b>Total Net Change In Fund Balances - Governmental Funds</b>	<b>\$ 11,290,895</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Net income of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.	130,699
Capital outlay expenditures are capitalized in the statement of activities.	7,900,726
Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities.	(16,516)
Depreciation expense on capital assets is reported in the statement of activities.	(4,934,122)
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.	1,135,980
Proceeds from the issuance of bonds payable are considered current financial resources and are reported in the funds as revenue, but not the statement of activities.	(10,252,433)
Repayment of bonds payable and capital lease obligations uses current financial resources and are reported in the funds as expenditures, but not the statement of activities.	10,820,091
Amortization of premiums and deferred refunding charges.	(306,540)
Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period.	1,779,918
Change in the non-current net pension obligation.	(2,530,501)
Change in accrued interest on bonds payable.	92,871
Change in compensated absences.	(232,547)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 14,878,521</u></b>

See notes to financial statements

# County of Lackawanna, Pennsylvania

## Statement of Net Deficit - Proprietary Fund

December 31, 2014

	<b>Internal Service Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Investments	\$ 1,303,887
Prepaid expenses	<u>80,093</u>
Total	<u><u>\$ 1,383,980</u></u>
<b>Liabilities and Net Deficit</b>	
<b>Current Liabilities</b>	
Claims payable	\$ 1,552,871
<b>Net Deficit</b>	
Unrestricted	<u>(168,891)</u>
Total	<u><u>\$ 1,383,980</u></u>

See notes to financial statements

## County of Lackawanna, Pennsylvania

Statement of Revenues, Expenses, and Change in Net Deficit - Proprietary Fund  
Year Ended December 31, 2014

	<b>Internal Service Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 5,920
<b>Operating Expenses</b>	
Workers' compensation claims	813,309
Administrative	171,103
Total operating expenses	984,412
<b>Operating Loss</b>	(978,492)
<b>Nonoperating Revenues</b>	
Unrealized gain on investments	180,452
Interest income	32,635
Transfer in	896,104
Total nonoperating revenues	1,109,191
<b>Net Income</b>	130,699
<b>Net Deficit, Beginning</b>	(299,590)
<b>Net Deficit, Ending</b>	\$ (168,891)

See notes to financial statements

# County of Lackawanna, Pennsylvania

## Statement of Cash Flows - Proprietary Fund

December 31, 2014

	<b>Internal Service Fund</b>
<b>Cash Flows used in Operating Activities</b>	
Cash received from users	\$ 5,920
Cash payments for goods and services	(76,538)
Cash payments for insurance claims	(825,486)
	<u>(896,104)</u>
Net cash used in operating activities	<u>(896,104)</u>
<b>Cash Flows from Non-Capital Financing</b>	
Transfers in	<u>896,104</u>
<b>Cash Flows from Investing Activities</b>	
Interest income	32,635
Purchase of investments	(32,635)
	<u>-</u>
Net cash from investing activities	<u>-</u>
<b>Net Change in Cash</b>	-
<b>Cash, Beginning</b>	<u>-</u>
<b>Cash, Ending</b>	<u><u>\$ -</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating loss	\$ (978,492)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Prepaid expenses	94,565
Claims payable	(12,177)
	<u>(896,104)</u>
Net cash used in operating activities	<u><u>\$ (896,104)</u></u>

See notes to financial statements

# County of Lackawanna, Pennsylvania

## Statement of Fiduciary Net Position

December 31, 2014

	<b>Pension Trust Fund</b>	<b>Agency Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 832,071	\$ 5,475,282	\$ 6,307,353
Accrued interest	885,044	-	885,044
Investments, at fair value:			
Federated money market funds	1,102,725	-	1,102,725
Certificates of deposit	10,052,467	-	10,052,467
U.S. government securities	18,851,848	-	18,851,848
Tax exempt bonds	616,656	-	616,656
Corporate bonds	27,787,354	-	27,787,354
Common stocks	88,427,416	-	88,427,416
Mutual funds	13,041,338	-	13,041,338
Total investments	159,879,804	-	159,879,804
Total	\$ 161,596,919	\$ 5,475,282	\$ 167,072,201
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Accrued fees	\$ 109,755	\$ -	\$ 109,755
Escrow liabilities	-	2,254,830	2,254,830
Due to other funds	-	3,220,452	3,220,452
Total liabilities	109,755	5,475,282	5,585,037
<b>Net Position</b>			
Restricted for pensions	161,487,164	-	161,487,164
Total	\$ 161,596,919	\$ 5,475,282	\$ 167,072,201

See notes to financial statements

## County of Lackawanna, Pennsylvania

### Statement of Change in Fiduciary Net Position

Year Ended December 31, 2014

	<b>Pension Trust Fund</b>
<b>Additions</b>	
Contributions:	
Plan members	\$ 3,749,484
Employer	500,000
	<hr/>
Total contributions	4,249,484
	<hr/>
<b>Investment Income</b>	
Net appreciation in fair value of investments	7,068,869
Interest	1,772,120
Dividends	1,430,089
Investment expense	(47,448)
	<hr/>
Net investment income	10,223,630
	<hr/>
Total additions	14,473,114
	<hr/>
<b>Deductions</b>	
Benefits paid	8,157,366
Participant contributions refunded	1,024,658
Death benefits paid	1,138,035
Administrative expenses	459,897
	<hr/>
Total deductions	10,779,956
	<hr/>
<b>Increase in Net Position</b>	3,693,158
	<hr/>
<b>Net Position, Beginning</b>	157,794,006
	<hr/>
<b>Net Position, Ending</b>	<u>\$ 161,487,164</u>

See notes to financial statements

**County of Lackawanna, Pennsylvania**

Combining Balance Sheet - Discretely Presented Component Units  
December 31, 2014

	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
<b>Current Assets</b>								
Cash and cash equivalents	\$ -	\$ 587,375	\$ 69,430	\$ 8,950,987	\$ 747,197	\$ 4,621,558	\$ 323,163	\$ 15,299,710
Restricted cash	-	-	-	-	7,662,217	-	187	7,662,404
Investments	47,704	-	-	-	123,521	-	-	171,225
Restricted investments	1,347,066	-	-	516,617	-	-	-	1,863,683
Due from other governments	2,931,104	-	-	-	587,027	2,791,880	-	6,310,011
Other receivables	47,608,179	129,591	-	887,503	868,264	88,596	629,121	50,211,254
Taxes receivable, net	-	364,860	-	-	-	-	-	364,860
Other current assets	-	412,524	-	48,103	379,418	2,069	-	842,114
Total current assets	51,934,053	1,494,350	69,430	10,403,210	10,367,644	7,504,103	952,471	82,725,261
<b>Capital Assets Not Being Depreciated</b>	-	50,000	-	-	3,072,904	-	-	3,122,904
<b>Capital Assets, Net</b>	-	841,493	-	56,569,450	10,417,386	52,130,008	6,275,015	126,233,352
<b>Other Assets</b>	9	-	-	567,032	198,428	-	550,000	1,315,469
Total	\$ 51,934,062	\$ 2,385,843	\$ 69,430	\$ 67,539,692	\$ 24,056,362	\$ 59,634,111	\$ 7,777,486	\$ 213,396,986
<b>Liabilities</b>								
Current liabilities:								
Accounts payable	\$ -	\$ 6,959	\$ -	\$ 282,218	\$ 673,739	\$ -	\$ 3,350	\$ 966,266
Accrued expenses	1,060	-	-	57,549	427,761	243,206	89,121	818,697
Current portion of long-term debt	-	-	-	1,497,932	-	640,000	555,000	2,692,932
Current portion of compensated absences	-	-	-	196,866	-	-	-	196,866
Due to primary government	-	-	-	-	193,575	7,300,000	1,534,898	9,028,473
Deferred revenue	-	364,860	-	-	7,662,217	-	-	8,027,077
Escrow liability	4,324,814	-	-	-	-	-	-	4,324,814
Other liabilities	-	65,394	-	-	-	12,950	-	78,344
Total current liabilities	4,325,874	437,213	-	2,034,565	8,957,292	8,196,156	2,182,369	26,133,469
Investment derivative - pay fixed/receive variable basis swap	-	-	-	-	-	881,481	-	881,481
<b>Long-term Debt</b>	-	-	202,057	22,784,050	-	17,550,000	2,976,445	43,512,552
<b>Compensated Absences</b>	-	-	-	399,195	496,677	-	-	895,872
<b>Nonrecourse Debt Issues</b>	47,608,179	-	-	-	-	-	44,000	47,652,179
Total liabilities	51,934,053	437,213	202,057	25,217,810	9,453,969	26,627,637	5,202,814	119,075,553
<b>Deferred Inflows of Resources</b>								
Deferred service concession arrangement receipts	-	-	-	-	-	-	1,152,426	1,152,426
<b>Net Position</b>								
Net investment in capital assets	-	891,493	-	32,285,646	13,490,290	29,431,888	2,743,570	78,842,887
Restricted	-	546,700	-	236,000	-	-	187	782,887
Unrestricted	9	510,437	(132,627)	9,800,236	1,112,103	3,574,586	(1,321,511)	13,543,233
Total net position	9	1,948,630	(132,627)	42,321,882	14,602,393	33,006,474	1,422,246	93,169,007
Total	\$ 51,934,062	\$ 2,385,843	\$ 69,430	\$ 67,539,692	\$ 24,056,362	\$ 59,634,111	\$ 7,777,486	\$ 213,396,986

## County of Lackawanna, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Position - Discretely Presented Component Units

Year Ended December 31, 2014

	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
<b>Revenues</b>								
Charges for services	\$ 39,336	\$ 220,000	\$ -	\$ 8,545,646	\$ 4,117,159	\$ -	\$ 550,000	\$ 13,472,141
Real estate taxes	-	4,210,312	-	-	-	-	-	4,210,312
Tax incremental financing	-	-	500,964	-	-	-	-	500,964
Rental income	10,159,424	-	-	-	-	785,137	-	10,944,561
Interest income	78,997	-	75	79,988	10,026	1,061	-	170,147
Operating grants and contributions	-	951,615	-	-	7,568,465	-	-	8,520,080
Capital grants and contributions	-	-	-	-	2,116,755	1,021,616	-	3,138,371
Other	-	34,777	33,529	593,270	43,358	239,434	-	944,368
<b>Total revenues</b>	<b>10,277,757</b>	<b>5,416,704</b>	<b>534,568</b>	<b>9,218,904</b>	<b>13,855,763</b>	<b>2,047,248</b>	<b>550,000</b>	<b>41,900,944</b>
<b>Expenses</b>								
Public works and enterprises	-	5,164,243	-	8,207,658	13,080,527	-	-	26,452,428
Culture and recreation	-	183,458	-	-	-	-	-	183,458
Operating expenses	-	-	-	-	-	1,110,413	88,748	1,199,161
Community and economic development	-	-	219,963	-	-	-	-	219,963
Debt service	10,277,757	-	21,403	334,176	-	424,445	258,749	11,316,530
Unallocated depreciation and amortization	-	-	-	-	-	1,597,327	326,059	1,923,386
<b>Total expenses</b>	<b>10,277,757</b>	<b>5,347,701</b>	<b>241,366</b>	<b>8,541,834</b>	<b>13,080,527</b>	<b>3,132,185</b>	<b>673,556</b>	<b>41,294,926</b>
<b>Change In Net Position</b>	<b>-</b>	<b>69,003</b>	<b>293,202</b>	<b>677,070</b>	<b>775,236</b>	<b>(1,084,937)</b>	<b>(123,556)</b>	<b>606,018</b>
<b>Net Position (Deficit) Beginning</b>								
As previously reported	9	1,879,627	(425,829)	41,696,414	13,827,157	34,091,411	1,545,802	92,614,591
Restatement	-	-	-	(51,602)	-	-	-	(51,602)
As restated	9	1,879,627	(425,829)	41,644,812	13,827,157	34,091,411	1,545,802	92,562,989
<b>Net Position (Deficit), Ending</b>	<b>\$ 9</b>	<b>\$ 1,948,630</b>	<b>\$ (132,627)</b>	<b>\$ 42,321,882</b>	<b>\$ 14,602,393</b>	<b>\$ 33,006,474</b>	<b>\$ 1,422,246</b>	<b>\$ 93,169,007</b>

See notes to financial statements

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## 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 position 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 segments 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.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

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

The Debt Service Fund accounts for resources accumulated for the purpose of funding long-term debt obligations. The County records all debt service tax revenue directly in its debt service fund.

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

The County reports the following nonmajor governmental funds:

Liquid Fuels, Community Development, Emergency 911, Domestic Relations, Probation and Parole, Hotel Rental Tax, and other miscellaneous activities.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

The County reports the following proprietary fund:

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 reports the following fiduciary funds:

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 modified accrual basis and are adopted for the General and Debt Service Funds.

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.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements  
December 31, 2014

## **New Accounting Standards**

In June 2012, the GASB issued statement No. 67 - *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. This statement establishes accounting and financial reporting standards for the activities of pension plans that are administered through trusts and meet certain criteria. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain requirements. The effect of this adoption expanded pension footnote disclosures.

The County adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for the year ended December 31, 2014. GASB No. 70 provides accounting and financial reporting guidance to state and local governments that either offer or receive nonexchange financial guarantees. The County adopted the accounting and reporting requirements of GASB No. 70 as of January 1, 2014. The effect of this adoption added additional disclosures, but did not materially change the County's accounting and reporting policies.

## **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.

## **Assets Held for Capital Projects**

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

## **Capital Assets**

General capital assets 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.

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.

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

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

	<u>Governmental Activities</u>
Infrastructure and airport	20 - 50 years
Land improvements	20 years
Buildings and improvements	25 years
Furniture and equipment	5 - 20 years
Equipment under capital lease	10 years

### 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 a variable-to-variable basis swap, which is considered an investment derivative instrument, related to its General Obligation Bonds, Series B of 2010 (Note 7). The fair value of the derivative is recorded as a liability within the Statement of Net Position with the periodic change in fair value reported as a gain/loss in the Statement of Activities.

### 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.

### Governmental Fund Balance Classifications/Policies and Procedures

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Such non-spendable form items include inventory and prepaid expenses.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. Such restricted items include amounts restricted for debt service, certain grant programs, and capital projects.
- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action of the County's "highest level of decision-making authority" which do not lapse at year-end.
  - The Commissioners are its highest level of decision-making authority, and
  - The Commissioners commit funds through an ordinance.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County, but not through formal action of the Commissioners.
  - The Commissioners authorized the County's CFO to assign funds to specific purposes. The County has assigned funds for future infrastructure projects.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

### **Interfund Activity**

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements.

### **Restricted Net Position/Fund Balances**

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.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the County's policy is generally to apply the expenditure to committed resources, then to assigned resources, and then to unassigned resources.

### **Allocation of Indirect Expenses**

The County does not allocate any indirect expenses including depreciation.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

### 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 GASB Statement No. 14, *The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*, and by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the County has evaluated all related entities (authorities, commissions, and affiliates) for 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 Unit

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 government in the Health and Human Service Fund. The component unit reported in this way is:

- 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 and is blended as part of the Health and Human Services Fund, a major special revenue fund of the County.

### 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.

## **County of Lackawanna, Pennsylvania**

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### Notes to Financial Statements

December 31, 2014

- 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 of Lackawanna Transit System Authority (“COLTS”) operates the County’s mass transit system. The County Commissioners appoint the governing board of COLTS. COLTS has a fiscal year end of June 30, as such, the amounts included herein for COLTS are as of and for the year ended June 30, 2014.
- 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 MPSA owes the County \$7,300,000. In addition, the County has guaranteed the outstanding debt of MPSA for the entire term of the outstanding agreements and secured the debt with a portion of future hotel tax collections. Apart from the Hotel Room Rental collections, which the County assigned to MPSA for repayment of debt service, the MPSA has met each of its periodic debt service payment requirements.
- 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 agreed to fund any deficits of the LCPACA. The County refinanced certain of the LCPACA’s long-term debt outstanding and loaned the proceeds of the County’s issuance to the LCPACA. At December 31, 2014 approximately \$3,500,000 was due and payable from LCPACA to the County.

### **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
- Lackawanna County Solid Waste Management Authority

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

### 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 Lackawanna County Commissioners and two members of the Luzerne County Council and the Luzerne County Manager serving as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2014, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately \$5,197,000 in its capital assets at December 31, 2014.
- Lackawanna-Susquehanna Behavioral Health/Intellectual Disabilities Early Intervention. 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.

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

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, 2014, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$41,620,276 compared to the carrying amount of \$40,560,314. The difference is caused by items in-transit and outstanding checks. \$2,258,549 of the County's deposits were covered by federal depository insurance, \$1,695,370 of the County's deposits were uninsured and collateralized by specific securities pledged in the County's name by the financial institution and \$36,980,669 of the County's deposits were exposed to custodial credit risk and were 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. In addition, \$685,688 was exposed to custodial credit risk and was uninsured and not otherwise collateralized.

### Investments

As of December 31, 2014, 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>
Internal Service Fund:		
U.S government agency	3 - 19 years	\$ 1,280,168
Money market funds	N/A	23,719
		<u>\$ 1,303,887</u>
<u>Pension Trust Fund</u>	<u>Maturities</u>	<u>Fair Value</u>
Common stock	N/A	\$ 88,427,416
Corporate & tax-exempt bonds	1 - 30 years	28,404,010
U.S. government obligations	6 - 30 years	18,851,848
Mutual funds	N/A	13,041,338
Certificates of deposit	N/A	10,052,467
Money market	N/A	1,102,725
		<u>\$ 159,879,804</u>

### Interest Rate Risk

The County or the Pension Trust Fund 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.

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

#### 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, 2014, no one issuer totaled more than five percent of the Pension Trust Fund's net assets. The Pension Trust Fund'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 Activities had the following credit risk at December 31, 2014:

<u>Investment</u>	<u>S&amp;P Rating</u>	<u>%</u>
U.S government obligations	AA+	<u>100.00 %</u>

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2014:

<u>Investment</u>	<u>S&amp;P Rating</u>	<u>%</u>
U.S government obligations	AA+	39.9 %
Corporate bonds	Aaa	19.3
Corporate bonds	AA	2.9
Corporate bonds	AA+	2.7
Corporate bonds	AA-	7.0
Corporate bonds	A	10.1
Corporate bonds	A+	6.7
Corporate bonds	A-	7.3
Corporate bonds	BBB+	2.1
Corporate bonds	BBB-	<u>2.0</u>
Total		<u>100.00 %</u>

#### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not recover the value of its investments or collateral securities that are in the possession of an outside party. All investments of the Pension Trust Fund are held in trust at Community Bank, N.A. at December 31, 2014.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## 4. Real Estate Taxes

The total tax on real estate in 2014 was 57.420 mills (\$0.057420 per \$1,000 of assessed valuation). Of this amount, 53.60 mills were levied for general and debt service purposes, 2.820 mills were levied for library services in the County and 1 mill was levied for culture and 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, 2014 were approximately \$18,900,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$9,700,000.

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

#### 5. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2014, was as follows:

	January 1, 2014	Acquisitions	Disposals	Transfer	December 31, 2014
Capital assets not being depreciated:					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	10,466,435	1,771,400	-	(8,983,635)	3,254,200
Total capital assets, not being depreciated	13,999,670	1,771,400	-	(8,983,635)	6,787,435
Capital assets being depreciated:					
Buildings and improvements	115,597,518	455,381	-	1,582,599	117,635,498
Machinery and equipment	37,907,013	3,254,919	(28,727)	1,611,927	42,745,132
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	38,020,998	2,419,026	-	5,789,109	46,229,133
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	201,676,421	6,129,326	(28,727)	8,983,635	216,760,655
Less accumulated depreciation for:					
Buildings and improvements	(31,096,443)	(2,871,779)	-	-	(33,968,222)
Machinery and equipment	(34,042,089)	(1,437,159)	12,211	-	(35,467,037)
Equipment under capital lease	(782,308)	(94,888)	-	-	(877,196)
Infrastructure	(29,420,189)	(369,070)	-	-	(29,789,259)
Investment in Airport	(3,369,301)	(161,226)	-	-	(3,530,527)
Total accumulated depreciation	(98,710,330)	(4,934,122)	12,211	-	(103,632,241)
Net capital assets being depreciated	102,966,091	1,195,204	(16,516)	8,983,635	113,128,414
Governmental activities capital assets, net	\$ 116,965,761	\$ 2,966,604	\$ (16,516)	\$ -	\$ 119,915,849

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements December 31, 2014

### 6. Long-Term Obligations

Description	January 1, 2014	Additions (Refundings)	Payments	December 31, 2014	Current Portion
General Obligation Bonds, Series A of 2004	\$ 2,570,000	\$ -	\$ (1,270,479)	\$ 1,299,521	\$ 1,299,521
Taxable General Obligation Bonds, Series C of 2004	2,550,000	(2,545,000)	(5,000)	-	-
General Obligation Bonds, Series D of 2004	2,410,000	-	(2,410,000)	-	-
General Obligation Bonds, Series A of 2007	14,225,000	-	-	14,225,000	-
General Obligation Bonds, Series B of 2007	17,885,000	-	(55,000)	17,830,000	50,000
General Obligation Notes, Series A of 2008	44,510,000	-	(5,000)	44,505,000	5,000
General Obligation Notes, Series D of 2008	12,473,652	-	(550,000)	11,923,652	1,650,893
General Obligation Bonds, Series E of 2008	14,425,000	-	(950,000)	13,475,000	960,000
Taxable General Obligation Bonds, Series A of 2009	7,325,000	-	(15,000)	7,310,000	15,000
General Obligation Notes, Series B of 2009	26,470,000	-	(5,000)	26,465,000	5,000
Taxable General Obligation Notes, Series A of 2010	2,467,000	-	(352,000)	2,115,000	390,000
General Obligation Bonds, Series B of 2010	58,390,000	-	(50,000)	58,340,000	50,000
General Obligation Notes, Series of 2011	17,558,000	-	(1,849,000)	15,709,000	1,938,000
General Obligation Notes, Series A of 2012	5,831,787	-	(51,000)	5,780,787	673,000
General Obligation Notes, Series B of 2012	2,224,116	-	(275,000)	1,949,116	299,000
General Obligation Notes, Series A of 2013	2,712,117	-	(251,720)	2,460,397	261,032
General Obligation Notes of 2014	-	2,587,000	-	2,587,000	-
General Obligation Notes, Series A of 2014	-	2,172,492	-	2,172,492	108,770
General Obligation Notes, Series B of 2014	-	5,492,941	-	5,492,941	299,366
<b>Total</b>	<b>234,026,672</b>	<b>7,707,433</b>	<b>(8,094,199)</b>	<b>233,639,906</b>	<b>8,004,582</b>
Bond premiums, discounts and deferred refunding	(4,881,234)	-	306,540	(4,574,694)	-
	<u>\$ 229,145,438</u>	<u>\$ 7,707,433</u>	<u>\$ (7,787,659)</u>	<u>\$ 229,065,212</u>	<u>\$ 8,004,582</u>

### Governmental Activities

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 5.00% per annum, with final maturity scheduled for 2015.

During 2004, the County issued \$4,210,000 of taxable 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 5.10% to 5.35%, with final maturity scheduled for 2019. This bond was advance refunded in 2014, through the issuance of General Obligation Notes of 2014 in the amount of \$2,587,000.

## County of Lackawanna, Pennsylvania

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### Notes to Financial Statements

December 31, 2014

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 (4.24% at December 31, 2014) and matured during 2014.

During 2007, the County issued \$21,090,000 of General Obligation Bonds (Series A of 2007) to finance various capital projects. The bonds are due in varying annual installments plus interest at rates ranging from 3.70% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009, consisting of the principal payments due in 2009 through 2017.

During 2007, the County issued \$33,735,000 of General Obligation Bonds (Series B of 2007) to currently refund all or a portion of the Series A of 2004, Series B of 2004, and Series B of 1999 bond issues. The bonds are due in varying annual installments plus interest at rates ranging from 3.75% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009.

During 2008, the County issued \$44,540,000 (Series A of 2008), \$44,540,000 (Series B of 2008) and \$6,745,000 (Series C of 2008) of General Obligation Notes. The proceeds of the Series A, B and C notes were used to advance refund a portion of the County's Series A of 2002 general obligation bonds, currently refund the outstanding Series B of 2005 and Series A of 2006 general obligation bonds and to finance various capital projects and to pay the costs of issuance. The bonds are due in varying annual installments plus interest at variable rates (.69% at December 31, 2014 for Series A) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 General Obligation Bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction during 2008. Advance refunding of the 2008 C Bond was paid to the paying agent which defeased the bond in June 2009. The Series B bonds were advance refunded in October 2010. Advance funding was paid to the paying agent which defeased the Series B bonds in October 2010.

During 2008, the County issued \$13,858,652 (Series D of 2008) of zero coupon General Obligation Notes and \$17,960,000 (Series E of 2008) of General Obligation Bonds. The proceeds of the Series D notes and Series E bonds were used to advance refund a portion of the County's Series A of 1999 general obligation bonds and to finance various capital projects. The Series D of 2008 notes are due in varying installments that yield to maturity at rates ranging from 6.00% to 7.50% with final maturity scheduled for July 2023. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 4.50% to 6.125% with final maturity scheduled for January 2022.

During 2009, the County issued \$7,375,000 (Series A of 2009) of taxable General Obligation Bonds. The proceeds of the bonds were used to currently refund the County's Series C of 2008 General Obligation Bonds. The bonds are due in varying annual installments plus interest at rates ranging from 7.00% to 7.25% with final maturity scheduled for October 2029.

## County of Lackawanna, Pennsylvania

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### Notes to Financial Statements

December 31, 2014

During 2009, the County issued \$26,495,000 (Series B of 2009) of General Obligation Notes. The proceeds of the notes were used to advance refund a portion of the County's Series A and B of 2007 Bonds. The notes are due in varying annual installments plus interest at rates ranging from 5.65% to 6.00% with final maturity scheduled for September 2034.

During 2010, the County issued \$3,319,000 (Series A of 2010) of taxable General Obligation Notes. The proceeds of the notes were used to currently refund the County's Series B of 1999 General Obligation Bonds and to pay the costs of issuance. The notes are due in varying annual installments plus interest at a rate of 4.94% per annum, with final maturity scheduled for February 2019. Of the \$3,319,000 borrowing, \$2,499,000 related to funds that were loaned to the LCPACA, and \$820,000 related to County projects. The County is receiving periodic payments of principal and interest from LCPACA, amounting to \$265,021 in principal during 2014, on its share of this obligation. Principal due in 2015 on the County's share of this borrowing is \$96,369. The County also agreed to fund any operating expenses of the LCPACA if its revenues under a Concert Concession Agreement were insufficient. At December 31, 2014, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 15.

During 2010, the County issued \$58,540,000 (Series B of 2010) of General Obligation Bonds. The proceeds of the Bonds were used to currently refund the County's Series B of 2008 General Obligation Bonds and terminate the related interest rate swap agreement. The bonds are due in varying annual installments plus interest at rates ranging from 2.25% to 5.00%, with final maturity scheduled for September 2035. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 Series A and B General Obligation Bonds and paid approximately \$10,183,000 upon termination from the proceeds of its Series B of 2010 General Obligation Bonds.

Effective October 1, 2010, the County entered into a variable-to-variable swap agreement modifying the interest rate payments associated with the County's 2010 Series B General Obligation Bonds. The agreement terminates on September 1, 2035. The effect of the Agreement requires the County to pay a variable rate equal to the SIFMA Index plus 0.787% payable each March 1 and September 1 through final maturity. Pursuant to this agreement, the County receives a variable rate equal to 68% of the 3-month London Inter-Bank Offered Rate ("LIBOR") plus 0.15% payable to the County on each March 1 and September 1 through final maturity. The Swap Notional amount amortizes through termination as the 2010 B Bonds amortize.

During 2011, the County issued \$21,000,000 (Series of 2011) of General Obligation Notes to finance unfunded debt of the County, including certain outstanding obligations of current and prior years and to fund the costs and expenses of issuing the 2011 note. These notes are due in varying monthly installments plus interest at a fixed-rate of 4.75%, with final maturity scheduled for December 2021. If the Note is considered taxable at any time, it shall mature in installments of principal and interest at the maximum taxable rate of interest of 18%. The Note is subject to extraordinary mandatory redemption by the County prior to maturity to the extent that there are "available amounts" in the preceding fiscal year as determined by the County pursuant to the IRS regulations.

During 2012, the County issued \$6,085,000 (Series A of 2012) of General Obligation Notes. The proceeds of the notes were used to currently refund the County's outstanding Series A of 2002 General Obligation Bonds. The notes are due in varying installments of principal and interest at a fixed rate of 3.94% with final maturity scheduled for October 2020.

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

During 2012, the County issued \$2,726,000 (Series B of 2012) of General Obligation Notes. The proceeds of the notes were used to currently refund the County's outstanding Series B of 2002 General Obligation Bonds. The notes are due in varying installments of principal and interest at a fixed rate of 5.64% with final maturity scheduled for October 2020.

During 2013, the County issued \$2,834,108 (Series A of 2013) of General Obligation Notes to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed rate of 2.84% for three years and then adjusting to 70% of prime rate with a floor of 2.84% and a ceiling of 5.50% with final maturity scheduled for July 2023.

During 2014, the County issued \$2,587,000 of General Obligation Notes. The proceeds of the notes were used to currently refund the County's Series C of 2004 General Obligation Bonds. The notes are due in varying installments of principal and interest at a fixed rate of 1.93%, with principal payments beginning in October 2015, with final maturity scheduled for October 2019. This refinancing reduced the County's total debt service payments over the next 5 years by approximately \$225,000, resulting in an economic gain of approximately \$239,000.

During 2014, the County issued \$2,172,492 (Series A of 2014) of taxable General Obligation Notes. The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed rate of 4.70% with final maturity scheduled for May 2030.

During 2014, the County issued \$5,492,941 (Series B of 2014) of General Obligation Notes. The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed rate of 3.05% with final maturity scheduled for May 2030.

Interest paid on these bonds and notes during the year ended December 31, 2014 amounted to \$12,080,844, including swap related interest payments amounting to approximately \$310,000.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, exclusive of the effect of the interest rate swaps (Note 8), as of December 31, 2014. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,004,582	\$ 10,335,769	\$ 18,340,351
2016	8,371,709	10,029,822	18,401,531
2017	8,563,124	9,822,009	18,385,133
2018	9,984,030	9,569,692	19,553,722
2019	10,259,028	9,263,003	19,522,031
2020 - 2024	46,161,042	44,139,715	90,300,757
2025 - 2029	60,095,126	25,501,907	85,597,033
2030 - 2034	71,161,265	11,650,123	82,811,388
2035	11,040,000	401,850	11,441,850
Total	<u>\$ 233,639,906</u>	<u>\$ 130,713,890</u>	<u>\$ 364,353,796</u>

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

### Defeased Debt

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, 2014, the amount of defeased bonds outstanding was \$26,160,000.

At December 31, 2014, the following bonds outstanding had been defeased by the County:

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2014</u>
General Obligation Bonds, Series A of 1999	2022	\$ 8,060,000
General Obligation Bonds, Series A of 2007	2017	2,555,000
General Obligation Bonds, Series B of 2007	2022	8,830,000
General Obligation Notes, Series C of 2008	2029	<u>6,715,000</u>
Total		<u>\$ 26,160,000</u>

### Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2014:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying installments plus interest at 4.25%, maturing 2022.	<u>\$ 202,057</u>
<u>Lackawanna River Basin Sewer Authority</u>	
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through August 2012) and matures in August 2032. Amortization of this loan commenced in May 2012.	1,108,720
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through September 2012) and matures in September 2032. Amortization of this loan commenced in May 2013.	23,045,084

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

	<u>Amount</u>
<u>Lackawanna River Basin Sewer Authority (continued)</u>	
Sewer Revenue Bonds, Series of 2009, due in varying installments with interest payable semiannually at rates ranging from 1.00% to 2.75%; maturing 2015. Reported net of bond premium of \$1,822.	\$ 128,178
Total Lackawanna River Basin Sewer Authority	<u>24,281,982</u>
<u>Lackawanna County Performing Arts Center Authority</u>	
County General Obligation Bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.875% to 7.000%; final maturity scheduled for 2019. Reported net of unamortized discount of \$8,555.	1,581,445
County 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>1,950,000</u>
Total Lackawanna County Performing Arts Center Authority	<u>3,531,445</u>
<u>Multi-Purpose Stadium Authority</u>	
Variable Rate Demand Hotel Room Rental Tax Revenue Bonds, Series of 2013 due in varying installments in July of each year commencing July 2014. Interest payments are due monthly at a variable interest rate equivalent to a Weekly Rate determined for each Weekly Rate Period as calculated by PNC Capital Markets. The rate at December 31, 2014 was .04%. Final maturity scheduled for July 2036.	<u>18,190,000</u>
Total Discretely Presented Component Units	<u>\$ 46,205,484</u>

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

Scheduled principal maturities of long-term debt of the discretely presented component units are summarized as follows:

Years ending December 31:	
2015	\$ 2,692,932
2016	2,625,462
2017	2,694,660
2018	2,715,235
2019	2,787,295
2020 - 2024	11,735,564
2025 - 2029	12,620,162
2030 - 2034	6,279,551
2035 - 2036	<u>2,065,000</u>
Total	46,215,861
Less unamortized discount and bond premium	<u>(10,377)</u>
Total	<u>\$ 46,205,484</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, 2014, there was one general obligation bond issue outstanding and nine notes and mortgages outstanding with an aggregate balance of \$47,608,179.

# County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

## **7. Service Concession Arrangement - Lackawanna County Performing Arts Center Authority**

In January 2012, LCPACA entered into a long-term Service Concession Arrangement with a private company (the "Operator") for the primary purpose of leveraging LCPACA's assets to generate cash resources. Pursuant to the agreement, the Operator will operate and collect revenue from the Amphitheatre for a 10-year term ending December 31, 2021, with a cancelation clause allowing the Operator to terminate the agreement with written notice on December 31, 2016. LCPACA will receive \$550,000 annually over the term of the agreement, which has been recorded within the statement of net position as deferred inflows of resources - deferred concession arrangement. In addition, the Operator was required to remit 50% of the net revenues received for "naming rights" sponsorship of the Amphitheatre per a contract which expired December 31, 2013. Assets continue to be reported in the statement of net position and are depreciated as applicable over their useful lives. Capital asset improvements made to the facility by the Operator are amortized to revenue over the remaining non-cancellable term and recognized as a capital asset depreciated over its useful life.

LCPACA anticipates that estimated direct required maintenance obligations over the five-year non-cancelable term of the agreement to be \$110,000 and recorded a contractual obligation that will be amortized over the five-year period. At December 31, 2014, LCPACA's contractual obligations balance was \$44,000.

Deferred inflows of resources reported in the statement of net position as deferred service concession arrangements consisted of unearned revenue (\$1,100,000), the contractual obligation payable (\$44,000) and sponsorship – capital improvements (\$96,426).

## **8. Derivative Financial Instrument - Basis Swap**

### **Objective of the Basis Swap**

The County entered into a variable-to-fixed interest rate swap transaction in connection with the issuance of its General Obligation Notes, Series A & B of 2008 (the "2008 Notes"). Subsequent to issuance, the County amended the 2008 Swap with the purpose of hedging the 2008 Notes. Included with the issuance of the County's General Obligation Bonds, Series B of 2010, is an amendment to the 2008 Swap to provide a variable-to-variable basis swap, to cash settle a portion of the 2008 Swap and relate the 2010 Swap to the 2010 Series B Bonds with the purpose of managing the interest rate payments on the 2010 Bonds.

### **Terms**

On September 14, 2010, the County entered into a variable-to-variable basis swap transaction with PNC Bank ("PNC") in the initial and currently outstanding notional amount of \$58,540,000. Under the terms of the swap contract the County receives a variable interest rate equal to 68% of the 3-Month London Interbank Offered Rate ("LIBOR") plus a fixed spread of .15% and pays a variable rate to PNC equal to 100% of the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index plus a fixed spread of .787%. Payments are made semi-annually on the March and September 1 and rates reset weekly. The basis swap terminates and the 2010 Series B Bonds mature on September 1, 2035.

# County of Lackawanna, Pennsylvania

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## Notes to Financial Statements

December 31, 2014

### **Fair Value**

At December 31, 2014, the swap had a negative fair value of \$8,022,069, which is reported as investment derivative - pay variable / receive variable basis swap in the governmental activities section of the statement of net assets. Changes in the fair value are reported as investment income in the governmental activities section of the statement of activities.

### **Credit Risk**

As of December 31, 2014, the County was not exposed to credit risk because the 2010 Swap had a negative fair value. However, should interest rates change and the fair value of the 2010 Swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

The basis swap transaction exposes the County to credit (default) risk. Should the County's long-term credit rating be downgraded in the future, this gives the counterparty (PNC Bank) an additional termination event if the County does not post the amount of collateral needed to secure its obligations under the terms of the Swap. In the event that the County cannot post the required amount of collateral, the counterparty will have the ability to obligate the County to terminate the Swap at the then current market rate.

### **Interest Rate Risk**

The basis swap transaction exposes the County to interest rate risk. If the percentage of the 3-Month LIBOR rate plus a fixed spread received by the County is lower than the variable rate the County is paying the counterparty (PNC Bank) under the terms of the swap, the County would be obligated to make a periodic net swap payment to the counterparty - based on market conditions, the net swap payment due by the County to the counterparty could be significant.

### **Basis Risk**

The County is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At December 31, 2014, the associated debt used the LIBOR index and the counterparty's payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

### **Termination Risk**

The basis swap transaction exposes the County to termination risk. If the County decides to terminate the Swap or a termination event occurs and the County is obligated to terminate the Swap and the market conditions are such that the County is "out of the money." In an "out of the money" scenario the County would have to pay a termination payment to the counterparty (PNC Bank) to terminate the Swap. Depending on market movements the County could potentially owe the counterparty a significant termination payment.

In light of recent debt rating declines of the County, a risk of a Swap Agreement Termination exists related to the 2010 Swap Agreement. Potential termination events included in the 2010 Swap agreement include default or a decrease in credit rating of either the County or the counterparty. In March 2012, the County and the Counterparty reached a forbearance agreement that indicated the County's credit rating withdrawal would not constitute an early termination event.

## County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2014

### 9. Capital Lease Payable

The County entered into a capital lease for energy conservation equipment in 2005. The lease agreement requires 120 payments of \$15,885, including interest, through July 1, 2015.

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

Balance, January 1, 2014	\$ 290,374
Decrease	<u>(180,892)</u>
Balance, December 31, 2014	109,482
Less current portion	<u>(109,482)</u>
Long-term portion of capital lease payable	<u><u>\$ -</u></u>

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, 2014:

Year ending December 31: 2015	\$ 111,193
Less amounts representing interest	<u>(1,711)</u>
Present value of net minimum lease payments	<u><u>\$ 109,482</u></u>

Total interest paid on this capital lease in 2014 was \$9,725.

### 10. Compensated Absences

The changes in the County's compensated absences in 2014 are summarized as follows:

Balance, January 1, 2014	\$ 2,920,857
Increase	1,708,513
Decrease	<u>(1,475,966)</u>
Balance, December 31, 2014	3,153,404
Less current portion	<u>245,464</u>
Long-term compensated absences	<u><u>\$ 2,907,940</u></u>

The County pays its compensated absences from the General Fund.

# County of Lackawanna, Pennsylvania

Notes to Financial Statements  
December 31, 2014

## 11. 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, including required supplementary information required pursuant to GASB Statement No. 67, may be obtained from the County Commissioner's office.

Membership of the Plan consisted of the following at December 31, 2014, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	638
Terminated plan members entitled to but not yet receiving benefits	231
Active plan members	<u>1,041</u>
Total	<u>1,910</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, contribution requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings of the retirement plan.

The County's annual pension cost and net pension obligation for the current year were calculated as follows:

Annual required contribution	\$ 2,478,622
Interest on net pension asset	1,808,177
Adjustment to annual required contribution	<u>(2,917,192)</u>
Annual pension cost	1,369,607
Contributions made	<u>500,000</u>
Increase in net pension obligation	869,607
Net pension obligation, beginning of year	<u>24,109,027</u>
Net pension obligation, end of year	<u>\$ 24,978,634</u>

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, 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 Plan's 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, at which time the County changed to the Entry Age normal method.

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>
12/31/12	\$ 3,224,134	\$ 500,000	15.5 %	\$ 21,464,074
12/31/13	3,144,953	500,000	15.9	24,109,027
12/31/14	1,369,607	500,000	36.5	24,978,634

### Pension Liability of the Plan

#### Net Pension Liability

The components of the net pension liability of the Plan as of December 31, 2014 were as follows:

Total pension liability	\$ 200,506,370
Plan fiduciary net position	161,487,164
Plan net pension liability	<u>\$ 39,019,206</u>
Plan fiduciary net position as a percentage of total pension liability	<u>80.54 %</u>

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Pension Fund.

#### Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2014 using the following actuarial methods and assumptions:

Actuarial valuation date	December 31, 2014
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	4.50%
Inflation	3.00%
Interest rate	7.50%
Asset valuation method	Building-Block method

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

Mortality rates were based on the RP-2013 Annuitant and Non-annuitant Mortality Tables for males and females with no projected improvement. The actuarial assumptions used in the December 31, 2014 valuation were based on past experience under the Plan and reasonable future expectations which represent the actuary's best estimate of anticipated experience under the Plan.

### 12. Fund Balance Classifications

The County presents its governmental fund balances by level of constraint in the aggregate on its balance sheet - governmental funds. The individual specific purposes of each constraint are presented below:

	General Fund	Health and Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Non-spendable for:						
Inventory	\$ 27,820	\$ -	\$ -	\$ -	\$ -	\$ 27,820
Prepaid expenses	280,879	-	-	-	29,696	310,575
Total non-spendable	<u>\$ 308,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,696</u>	<u>\$ 338,395</u>
Restricted for:						
Grant programs	\$ -	\$ 777,883	\$ -	\$ -	\$ 3,061,894	\$ 3,839,777
Debt service	-	-	6,696,491	-	-	6,696,491
Capital projects	-	-	-	9,309,969	-	9,309,969
Total restricted	<u>\$ -</u>	<u>\$ 777,883</u>	<u>\$ 6,696,491</u>	<u>\$ 9,309,969</u>	<u>\$ 3,061,894</u>	<u>\$ 19,846,237</u>
Assigned for:						
Economic development	\$ 1,600,750	\$ -	\$ -	\$ -	\$ -	\$ 1,600,750
Program purposes	-	-	-	-	76,260	76,260
Total assigned	<u>\$ 1,600,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,260</u>	<u>\$ 1,677,010</u>

### 13. Deficit Fund Balances

The individual health and human service fund departments that have net deficit balances at December 31, 2014 are the Area Agency on Aging with a deficit of \$241,210, Human Services Development with a deficit of 167,111 and the Lackawanna County Commission on Drug and Alcohol Abuse with a deficit of \$217,826. Such deficits resulted from the County not funding 100% of the operating deficits of these activities in the current or past years and will be funded in 2015 operating subsidy payments.

The individual non-major funds that have net deficit balances at December 31, 2014 are the Domestic Relations Fund with a deficit of \$148,045, Emergency 911 Fund with a deficit of \$124,556, the Landfill Trust Fund with a deficit of \$35,383, and the Clerks Automation Fund with a deficit of \$19,805. Such deficits resulted from the County not funding 100% of the operating deficits of these activities in the current or past years and will be funded in 2015 operating subsidy payments.

# County of Lackawanna, Pennsylvania

## Notes to Financial Statements

December 31, 2014

The Internal Service Fund has a net deficit of \$168,891 at December 31, 2014. 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, a discretely presented component unit, has a net deficit of \$132,627 at December 31, 2014. The deficit resulted from the financing of the Ash Street and Taylor Commons 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 2022 when the notes mature.

### 14. 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. The County is responsible for payment of the first \$500,000 per claim, after which point, the County's excess claim policy (commercial insurance) covers any additional losses.

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 for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Balance, January 1	\$ 1,565,048	\$ 1,522,677
Claims incurred	801,132	691,990
Claims paid	<u>(813,309)</u>	<u>(649,619)</u>
Balance, December 31	<u>\$ 1,552,871</u>	<u>\$ 1,565,048</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

December 31, 2014

### 15. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2014 are as follows:

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
General Fund	\$ 5,806,515	\$ 1,354,223
Health and Human Services Fund	746,013	179,668
Debt Service Fund	3,000,000	327,183
Capital Projects Fund	560,830	3,671,015
Non-Major Funds	28,083	1,388,900
Agency Fund	-	3,220,452
Total	<u>\$ 10,141,441</u>	<u>\$ 10,141,441</u>

The amounts due to the General Fund are generally for payroll and other operating costs initially funded by the General Fund on behalf of the other funds, which the County anticipates repaying within the next year.

The amounts due from the Agency Fund to other funds represents amounts collected by various internal row offices (e.g., Sheriff, Treasurer, etc.) on behalf of other parties that have yet to be remitted to the County's General Fund.

The Capital Projects Fund owes the Debt Service Fund \$3,000,000 related to a Commonwealth of Pennsylvania Redevelopment Assistance Capital Project grant used to finance capital construction that were initially paid from debt service proceeds.

## County of Lackawanna, Pennsylvania

### Notes to Financial Statements

December 31, 2014

Interfund transfers in 2014 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Health & Human Services Fund	\$ 53,274	\$ 6,297
Capital Projects Funds	6,931	1,315,471
Non-Major Funds	-	2,278,631
Internal Service Fund	-	896,104
Total General Fund	<u>60,205</u>	<u>4,496,503</u>
Health & Human Services Fund, General Fund	<u>6,297</u>	<u>53,274</u>
Capital Projects Funds:		
General Fund	1,315,471	6,931
Non-Major Funds	555,823	-
Debt Service Fund	210,425	-
Total Capital Projects Fund	<u>2,081,719</u>	<u>6,931</u>
Non-Major Funds:		
General Fund	2,278,631	-
Capital Projects Fund	-	555,823
Total Non-Major Fund	<u>2,278,631</u>	<u>555,823</u>
Internal Service Fund, General Fund	<u>896,104</u>	<u>-</u>
Debt Service Fund, Capital Projects Fund	<u>-</u>	<u>210,425</u>
Totals	<u>\$ 5,322,956</u>	<u>\$ 5,322,956</u>

The General Fund transferred funds to the Health and Human Services Fund (\$6,297) to fund various social service programs and initiatives, to the Capital Projects Fund (\$1,315,471) to fund future capital projects, to the Non-Major Funds (\$2,278,631) for operating subsidies of Liquid Fuels, Domestic Relations, Community Development, and Emergency 9-1-1 funds and to the Internal Service Fund (\$896,104) to fund workers compensation claims incurred by the County during the year.

In addition, the County transferred \$210,425 from its Debt Service Fund to its Capital Projects Fund related to the net proceeds received on the issuance of the County's General Obligation Notes.

## **County of Lackawanna, Pennsylvania**

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Notes to Financial Statements

December 31, 2014

### **Due From/To Component Units**

The County has advanced \$7,300,000 to the MPSA primarily to fund MPSA's capital projects. This advance is expected to be received once MPSA receives its Commonwealth Redevelopment Assistance Capital Program Grants. During early 2015, the County received repayment of approximately \$5,000,000 of this advance.

The County has advanced \$1,534,898 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility (\$175,000) and to fund debt service payments (\$1,359,898). In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of \$5,093,710 within its governmental activities statement of net position.

### **16. Contingencies**

The County participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The County is potentially liable for any expenditure that may be disallowed pursuant to the terms of these grant programs. The County is not aware of any material items of noncompliance that would result in the disallowance of program expenditures.

The County is involved, from time to time, in various legal actions. In the opinion of the County, these matters either are adequately covered by insurance or will not have a material effect on the County's financial statements.

In August 2010, Luzerne County, Pennsylvania filed suit against the MPSA alleging that they would be entitled to one-half of any franchise sale proceeds if the MPSA's baseball franchise were to be sold. In the opinion of management, and after consultation with legal counsel, the MPSA is entitled to the entire amount of the sales proceeds. The matter is currently in litigation and its outcome cannot be ascertained. The sale of the franchise to SWB Yankees LLC was completed in April 2012 and the MPSA set aside one-half of the sale proceeds until final disposition of this matter.

### **17. Concentration of Labor**

At December 31, 2014, approximately 66% of the County's employees are represented by unions. At December 31, 2014, various union agreements were under negotiation and an estimated retroactive payroll liability of \$1,668,397 was recorded at year-end. These union agreements were finalized during 2015.

## County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

### 18. Restatement of Net Position

During the year ended December 31, 2014, the Lackawanna County Area Agency on Aging and the Lackawanna County Commission on Drug and Alcohol Abuse, departments of the Health and Human Services Fund, restated their financial statements to correct errors in accounting for revenues.

The restatement for the beginning net position for the Government-Wide Financial Statements is as follows:

Net position, as originally stated January 1, 2014	\$ (113,328,622)
Less contribution revenue	<u>(349,014)</u>
Net position, as restated January 1, 2014	<u>(113,677,636)</u>

The restatement for the beginning Net Position for the Fund Financial Statements is as follows:

Net position, as originally stated January 1, 2014	\$ 353,962
Less contribution revenue	<u>(349,014)</u>
Net position, as restated January 1, 2014	<u>4,948</u>

### 19. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. The County is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The County is required to adopt Statement No. 71 in conjunction with the adoption of Statement No. 68.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance the comparability of financial statements by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value on a government's financial position. The County is required to adopt Statement No. 72 for its calendar year 2016 financial statements.

## County of Lackawanna, Pennsylvania

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Notes to Financial Statements

December 31, 2014

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to clarify the applicability and use of authoritative and nonauthoritative sources of accounting and financial reporting for the preparation of state and local government financial statements. The County is required to adopt Statement No. 76 for its calendar 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with additional information regarding limitations on a government's ability to raise resources, including those resulting from government programs that include the use of tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. This statement requires governments that enter into tax abatement agreements to disclose certain information about those agreements. The County is required to adopt Statement No. 77 for its calendar year 2016 financial statements.

County management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the County's financial reporting process.

**County of Lackawanna, Pennsylvania**

 Statement of Revenues, Expenditures and Changes in Fund Balances -  
 General and Debt Service Funds Budget And Actual - Unaudited  
 Year Ended December 31, 2014

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$ 55,647,220	\$ 57,661,691	\$ 2,014,471	\$ 20,321,620	20,050,004	\$ (271,616)
Payments in-lieu of taxes	242,000	294,684	52,684	-	-	-
Intergovernmental	16,899,626	17,014,090	114,464	-	-	-
Charges for services	19,184,871	21,478,791	2,293,920	-	1,050,306	1,050,306
Interest and rent	24,035	29,621	5,586	5,000	197	(4,803)
Court costs, fines and forfeitures	22,200	2,604	(19,596)	-	-	-
Contributions and other	227,610	341,090	113,480	-	-	-
Total revenues	<u>92,247,562</u>	<u>96,822,571</u>	<u>4,575,009</u>	<u>20,326,620</u>	<u>21,100,507</u>	<u>773,887</u>
<b>Expenditures</b>						
General government - administrative	18,270,155	17,068,108	1,202,047	-	16,517	(16,517)
General government - judicial	18,712,834	19,488,140	(775,306)	-	-	-
Public safety	31,997,987	31,258,990	738,997	-	-	-
Public works	62,452	66,376	(3,924)	-	-	-
Human services	15,346,792	15,324,382	22,410	-	-	-
Culture and recreation	2,732,255	2,409,542	322,713	-	-	-
Community and economic development	392,250	399,793	(7,543)	-	-	-
Miscellaneous expense	856,149	752,648	103,501	-	-	-
Debt service:						
Principal	-	-	-	7,952,837	8,094,199	(141,362)
Interest	150,000	60,191	89,809	12,489,384	12,020,653	468,731
Total expenditures	<u>88,520,874</u>	<u>86,828,170</u>	<u>1,692,704</u>	<u>20,442,221</u>	<u>20,131,369</u>	<u>310,852</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>3,726,688</u>	<u>9,994,401</u>	<u>6,267,713</u>	<u>(115,601)</u>	<u>969,138</u>	<u>1,084,739</u>
<b>Other Financing Sources (Uses)</b>						
Note proceeds	-	-	-	-	2,587,000	2,587,000
Note issue costs	-	-	-	-	(42,000)	(42,000)
Payments to escrow agent for bond refunding	-	-	-	-	(2,545,000)	(2,545,000)
Transfers in	-	60,205	60,205	-	-	-
Transfers out	(5,316,381)	(4,496,503)	819,878	-	(210,425)	(210,425)
Total other financing sources (uses), net	<u>(5,316,381)</u>	<u>(4,436,298)</u>	<u>880,083</u>	<u>-</u>	<u>(210,425)</u>	<u>(210,425)</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources</b>	<u>(1,589,693)</u>	<u>5,558,103</u>	<u>7,147,796</u>	<u>(115,601)</u>	<u>758,713</u>	<u>874,314</u>
<b>Fund Balance, Beginning</b>	<u>3,986,992</u>	<u>7,410,005</u>	<u>3,423,013</u>	<u>1,447,028</u>	<u>5,937,784</u>	<u>4,490,756</u>
<b>Fund Balance, Ending</b>	<u>\$ 2,397,299</u>	<u>\$ 12,968,108</u>	<u>\$ 10,570,809</u>	<u>\$ 1,331,427</u>	<u>\$ 6,696,497</u>	<u>\$ 5,365,070</u>

## County of Lackawanna, Pennsylvania

Required Supplemental Information - Schedule of Funding Progress

Unaudited

December 31, 2014

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 ((b-a)/c)
January 1, 2006	\$ 104,954,131	\$ 114,543,257	\$ 9,589,126	91.6%	\$ 45,474,796	21.1%
January 1, 2007	118,608,487	124,198,042	5,589,555	95.5%	48,978,779	11.4%
January 1, 2008	133,074,285	135,787,677	2,713,392	98.0%	53,566,168	5.1%
January 1, 2009	126,590,597	148,389,777	21,799,180	85.3%	54,182,910	40.2%
January 1, 2010	124,908,886	159,480,512	34,571,626	78.3%	55,494,144	62.3%
January 1, 2011	126,642,687	164,450,651	37,807,964	77.0%	44,109,822	85.7%
January 1, 2012	131,696,720	174,890,950	43,194,230	75.3%	45,110,910	95.8%
January 1, 2013	139,398,287	186,060,671	46,662,384	74.9%	44,842,335	104.1%
January 1, 2014	157,794,006	194,595,986	36,801,980	81.1%	46,190,968	79.7%

The actuarial assumptions used in the January 1, 2014 actuarial valuation, the most recent actuarial valuation included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, 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 Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.