

County of Lackawanna, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2016



BAKER TILLY

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County of Lackawanna, Pennsylvania

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December 31, 2016

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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, 2016, 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 8.6% 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 90.2%, 99.1%, and 62.7%, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 1.2%, (0.9)%, and 12.5%, 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 97.2%, 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 from 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, 2016, 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.

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 15, the budgetary comparison information on page 66, the schedule of changes in net pension liability and related ratios on page 67, and the schedule of employer contributions on page 68 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 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 28, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the County's 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 28, 2017

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

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, 2016 compared to the year ended December 31, 2015. 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 \$95,427,957 at December 31, 2016.

General Fund revenues exceeded expenditures in 2016 by \$2,037,320. This increased the General Fund balance from \$22,905,087 at December 31, 2015 to a fund balance of \$24,942,407 at December 31, 2016.

The County has continued along the path of fiscal responsibility, once again generating an operating surplus in 2016. 2016 marked the fourth consecutive year that the County was able to operate in a surplus position without having to increase the tax burden on the County's constituents. These results are due to the "hands on" approach taken by the County Commissioners where the Commissioners have demonstrated a commitment to managing expenses, while continuing to search out new sustainable sources of revenue, as well as taking advantage of market conditions to manage the County's debt load more efficiently.

As a result of the Commissioners' approach, the County was able to hold the line on taxes and the Commissioners were able to present 2017 County budgets without any real estate tax increase, and the Commissioners will present a 2018 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 16-17 of this report.

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.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

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 66.

The basic fund financial statements can be found on pages 18-24 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 25-26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-65 of this report.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

Governmental Activities Condensed Statement of Net Position (Deficit) December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 74,032,242	\$ 76,771,109
Capital assets, net	<u>122,927,541</u>	<u>123,185,713</u>
Total assets	196,959,783	199,956,822
Deferred outflows of resources - pension	<u>11,200,189</u>	<u>1,696,363</u>
Total	<u>208,159,972</u>	<u>201,653,185</u>
Liabilities, Deferred Inflows of Resources		
Current liabilities	32,892,134	37,836,381
Long term and other liabilities	<u>269,255,394</u>	<u>262,469,736</u>
Total liabilities	<u>302,147,528</u>	<u>300,306,117</u>
Deferred inflows of resources	<u>1,440,401</u>	<u>684,178</u>
Net Position (Deficit)		
Net investment in capital assets	(72,236,165)	(66,568,231)
Restricted	3,377,190	9,028,372
Unrestricted	<u>(26,568,982)</u>	<u>(41,797,251)</u>
Total net deficit	<u>\$ (95,427,957)</u>	<u>\$ (99,337,110)</u>

Total assets and deferred outflows of resources of the Lackawanna County primary government increased by \$6,506,787 from 2015 to 2016 from \$201,653,185 to \$208,159,972. This amounts to a 2.8% increase.

The most notable changes in the County's "Governmental Activities Condensed Statement of Net Position (Deficit)" include an increase in the County's cash and short term investments by approximately \$14.1 million, and a decrease in accounts receivable of approximately \$16.8 million. The overall net decrease in current assets, coupled with the decrease in current liabilities of \$4.2 million, is due primarily to the Commonwealth Budget impasse at December 31, 2015 which was resolved in early 2016.

The County's total liabilities increased by \$1,841,411 in 2016, which represents a 0.6% increase. This increase predominantly arose from an overall increase in the County's net pension liability, offset to some extent by the reduction in current liabilities resulting from the Commonwealth of Pennsylvania having approved its 2016-2017 operating budget and therefore being current in its payments to the County as of December 31, 2016.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

Condensed Statement of Governmental Activities Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 29,950,806	\$ 29,884,813
Operating grants and contributions	56,695,734	50,093,979
Capital grants and contributions	4,143,371	5,896,292
General Revenues:		
Tax levy for general purposes, net	80,814,918	79,902,327
Change in fair value of investment derivative	(743,596)	1,637,303
Contributions and other, net	1,781,651	1,643,618
Total revenues	<u>172,642,884</u>	<u>169,058,332</u>
Expenses:		
General government - administrative	24,146,379	23,089,242
General government - judicial	23,514,919	22,537,604
Corrections	37,384,511	35,824,881
Public works and enterprises	3,578,772	1,536,000
Human services	50,167,918	47,761,118
Culture and recreation	7,135,483	6,870,166
Conservation and development	2,210,837	1,169,945
Depreciation	5,652,227	5,339,657
Interest-long term debt	14,942,685	12,902,744
Total expenses	<u>168,733,731</u>	<u>157,031,357</u>
Changes in net position	3,909,153	12,026,975
Net deficit, beginning	<u>(99,337,110)</u>	<u>(111,364,085)</u>
Net deficit, ending	<u>\$ (95,427,957)</u>	<u>\$ (99,337,110)</u>

The County's net deficit, ending, reflected in the "Condensed Statement of Governmental Activities" decreased by \$3.9 million between December 31, 2015 and December 31, 2016. This net decrease in net deficit, ending, was a result of revenues exceeding expenditures by \$3.9 million. The 2015 net deficit, ending, had decreased by \$12 million due to revenues exceeding expenditures during 2015. The decreases in the County's net deficit, ending in 2015, was predominately the result of an increase of \$8.4 million in the Health and Human Services Grant. In 2016, while expenses for the most part increased across the board, the net tax levy increased by approximately \$1 million and Operating Grants and Contributions increased by approximately \$7 million. These increases were sufficient to offset the increase in expenses and provide a decrease in net deficit of \$3.9 million.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
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Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2015.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 60,043,854	\$ 59,391,811	\$ 652,043	1.10	%
Intergovernmental	17,391,293	15,575,866	1,815,427	11.66	
Charges for service	21,471,561	20,557,444	914,117	4.45	
Other	922,115	5,444,532	(4,522,417)	(83.06)	
Bad debt recovery	-	1,398,278	(1,398,278)	(100.00)	
Transfers in	2,574	669,219	(666,645)	(99.62)	
Total revenue	<u>\$ 99,831,397</u>	<u>\$ 103,037,150</u>	<u>\$ (3,205,753)</u>	<u>(3.11)</u>	<u>%</u>

Total revenue in the General Fund decreased by \$3,205,753 or approximately 3.11% from 2015 to 2016.

The decrease in revenue between 2015 and 2016 is mostly the result of the decrease of \$5.9 million in other revenue and bad debt recovery offset by increases in intergovernmental revenues and charges for service. The change in other revenue is the result of having collected \$5 million in 2015 on a \$7.3 million long-term receivable from the Multi-Purpose Stadium Authority, but only having received approximately \$600,000 in 2016 related to this receivable. The decrease in bad debt recovery of \$1.4 million is the result of having recognized the total bad debt recovery related to the County's delinquent tax receivable in 2015 and there was no further recovery in 2016. These increases were offset to some extent by the approximate \$1.5 million increase in intergovernmental revenue due mostly to the fact that Office of Youth and Families Services ("OYFS") state grant revenues increased. These state grant funds are generated by expenditures, and OYFS reimbursable expenditures increased in 2016, thus causing the revenue increase. In addition, charges for services increased by approximately \$1 million between 2015 and 2016 as a result of increased reimbursements for housing non-Lackawanna County prisoners at the County prison.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

The following represents a summary of General Fund expenditures, by function, along with changes from 2015.

	2016 Amount	2015 Amount	Increase (Decrease)	% Change	
General government - administrative	\$ 20,508,635	\$ 18,125,508	\$ 2,383,127	13.15	%
General government - judicial	20,708,127	19,719,711	988,416	5.01	
Public safety - corrections	32,861,323	32,026,403	834,920	2.61	
Public works	80,731	69,733	10,998	15.77	
Health and human services	15,158,060	15,308,923	(150,863)	(0.99)	
Culture and recreation	2,518,269	2,418,879	99,390	4.11	
Community and economic development	435,882	406,713	29,169	7.17	
Miscellaneous	632,755	428,042	204,713	47.83	
Interest	14,595	28,190	(13,595)	(48.23)	
Transfers	4,875,700	4,568,069	307,631	6.73	
Total expenses	\$ 97,794,077	\$ 93,100,171	\$ 4,693,906	5.04	%

Total expenses in the General Fund increased by \$4,693,906 or approximately 5.04% from 2015 to 2016.

Expenses within the general government - administrative category increased by \$3.6 million principally because of an increase in pension expense, insurance, repairs to the Gateway building, and County Government Center expenses. Pension expense included in this category is \$746,000 more than 2015. Insurance expense increased by approximately \$300,000 due to the additional cost to insure the new County Government Center. Repairs to the Gateway building in the amount of approximately \$235,000 were a result of flooding in the building caused by a blocked drain. These expenses were reimbursed by the County's insurance and that revenue was included in miscellaneous revenue. As a result of the purchase of the County Government Center in May 2016, the County incurred approximately \$133,000 of additional utility and maintenance expenses for this building.

General government - judicial expenses increased by \$1 million principally as a result of contractually obligated salary and wage increases mandated by collective bargaining units. As a result of the Affordable Care Act, the County also was caused to pay health insurance for part-time employees included in this category. In addition to these expenses, the Sheriff incurred an additional \$95,000 of vehicle lease expenses as a result of the lease agreement with Enterprise Fleet Management which the County had entered into in 2015.

Public Safety-Corrections increased by \$834,920 primarily due to contractual increases in salaries and wages that resulted from an arbitration award in 2015 for the unionized employees at the County prison. The contractual obligations resulting from this award expire at December 31, 2017.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2016:

	2016 Budget	2016 Actual	Favorable (Unfavorable)	% Change	
Taxes	\$ 59,504,020	\$ 60,043,854	\$ 539,834	0.90	%
Intergovernmental	18,489,414	17,391,293	(1,098,121)	(6.31)	
Charges for service	20,326,269	21,471,561	1,145,292	5.33	
Other	369,635	922,115	552,480	59.91	
Transfers in	360,841	2,574	(358,267)	> 100.00	
Total revenue	\$ 99,050,179	\$ 99,831,397	\$ 781,218	0.78	%

Overall, the County's General Fund revenue exceeded its budget by \$781,218. The reason for the variance was that the County's tax collection rates in 2016 were better than anticipated when the budget was prepared. In addition, charges for services reflects a positive variance of \$1.3 million because in 2016 the County received reimbursement for the judiciary, which included amounts from prior years that had not been fully accounted for in accounts receivable. The unfavorable variance in the intergovernmental revenues were approximately \$1.3 million less than budgeted principally because State and Federal reimbursements for OYFS were less than anticipated.

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2016:

	2016 Budget	2016 Actual	Favorable (Unfavorable)	% Change	
General government - administrative	\$ 18,890,097	\$ 20,508,635	\$ (1,618,538)	(7.89)	%
General government - judicial	20,538,082	20,708,127	(170,045)	(0.82)	
Public safety - corrections	34,598,708	32,861,323	1,737,385	5.29	
Public works	109,070	80,731	28,339	35.1	
Health and human services	18,002,207	15,158,060	2,844,147	18.76	
Culture and recreation	2,729,906	2,518,269	211,637	8.4	
Community and economic development	416,577	435,882	(19,305)	(4.43)	
Miscellaneous	612,005	632,755	(20,750)	(3.28)	
Debt service	59,975	14,595	45,380	310.93	
Transfers	4,695,400	4,875,700	(180,300)	(3.70)	
Total expenses	\$ 100,652,027	\$ 97,794,077	\$ 2,857,950	2.92	%

The total expenses for 2016 were \$2,857,950 less than the amount budgeted for 2016.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
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The General government - administrative had a negative budget variance of \$1.6 million as a result of a number of factors. The majority of the variance can be attributed to the fact that in 2016 the County incurred \$1.3 million in pension expense compared to the budgeted amount of only \$600,000. In addition, with the 2016 purchase of the County Government Center, there were approximately \$433,000 of expenses incurred that included repairs, maintenance, and insurance that were not budgeted for. Finally, there was roughly \$235,000 in unanticipated repairs to the Gateway building as a result of flooding in the building caused by a blocked drain, which were not included in the 2016 budget

Public safety – corrections has a positive budget variance of \$1.75 million compared to the amount budgeted for 2016, due mainly to the County Prison expenses. The Prison medical expenses were \$236,000 less than budgeted due to the fact that the provider split the administration expense the County was being charged with another prison that is now being provided services as well. The Prison food contract was \$194,000 less than the budgeted amount since the annual increase was less than originally anticipated. In addition, as a result of the ESCO project that was completed in the beginning of 2016, the County realized Utilities savings of \$212,266. Overall, the expenses in public safety – corrections were down because of conservative estimates in the budget made by department heads, who are continually striving to save money.

Health and Human Services has a positive budget variance of \$2.8 million compared to the amount budgeted for 2016, in part due to the reorganization of OYFS salaries and wages and reduced purchased services. OYFS wage reimbursement expense was budgeted at \$433,593 to account for employees whose wage expense is not captured in the OYFS department, yet as of 2016 all wages were charged to the appropriate departments therefore negating the need for any type of reimbursement expense. In addition, \$417,890 in salaries and wages were budgeted in Human Services but only approximately \$14,000 was expensed for the year. OYFS purchase services decreased by approximately \$1.2 million attributable to the persistent efforts of the OYFS staff to secure permanent placements for children. These efforts have attributed to the continual steady decline in placements therefore decreasing purchase services but OYFS must present the budget information to the State for approval a year in advance thus causing a variance.

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 \$1,975,786 and \$3,241,859, respectively, as a result of increases in the County's Human Services Development Block Grant and changes in the program funding and operations during 2016.

The Health and Human Service Fund has a negative fund balance of \$(69,868). This is a decrease of \$530,651 from the 2015 final ending positive fund balance of \$460,783.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

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. At December 31, 2016 and 2015, the County's debt service fund balances were \$9,025,757 and \$7,995,777, respectively.

See Note 7 for additional information regarding the County's outstanding debt.

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance decreased from \$4,597,464 at December 31, 2015 to \$3,276,568 at December 31, 2016. The principal decrease in the County's Capital Projects Fund in 2016 was due to expending \$719,000 to pay for the County's Guaranteed Energy Savings contract, for which a borrowing in 2014 provided funds. In addition, expenditures for the new County Government Center amounted to \$398,000 during 2016.

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 \$1,535,434 at December 31, 2016. The fund's total assets at December 31, 2016 were \$1,310,253, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of \$225,181 as of December 31, 2016. This is a decrease of \$3,659 in the fund deficit of \$228,840 reported at December 31, 2015.

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 \$6,323,931 during 2016 resulting in Plan net position of \$160,706,340 at December 31, 2016. Plan net position was \$154,382,409 at December 31, 2015.

Plan contributions by members amounted to \$4,198,386 and \$4,238,646 in 2016 and 2015, respectively. Benefits paid to retired members were \$8,998,990 and \$8,841,736 in 2016 and 2015, 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 \$4,607,560 in that role as of December 31, 2016.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

Capital Assets

The County's investment in capital assets at December 31, 2016 and 2015, net of accumulated depreciation, was \$122,927,541 and \$123,185,713 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, 2016 and 2015:

Capital Assets, Governmental Activities December 31, 2016

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost Less Accumulated Depreciation</u>
County-wide:			
Land	\$ 3,533,235	\$ -	\$ 3,533,235
Infrastructure	51,423,131	31,012,487	20,410,644
Investment in airport	8,727,567	3,852,982	4,874,585
Buildings and improvements	122,751,467	39,917,292	82,834,175
Machinery and equipment	47,437,737	39,841,364	7,596,373
Construction-in-process	3,678,529	-	3,678,529
Total county-wide	<u>\$ 237,551,666</u>	<u>\$ 114,624,125</u>	<u>\$ 122,927,541</u>

December 31, 2015

County-wide:			
Land	\$ 3,533,235	\$ -	\$ 3,533,235
Infrastructure	49,994,667	30,323,872	19,670,795
Investment in airport	8,727,567	3,691,753	5,035,814
Buildings and improvements	122,573,364	36,950,649	85,622,715
Machinery and equipment	45,680,170	38,005,624	7,674,546
Construction-in-process	1,648,608	-	1,648,608
Total county-wide	<u>\$ 232,157,611</u>	<u>\$ 108,971,898</u>	<u>\$ 123,185,713</u>

Detailed information about the County's capital assets can be found in Note 6 within the accompanying notes to the financial statements.

Long Term Debt

As of December 31, 2016, the County's net general obligation debt was \$217,234,408 net of related discount. Detailed information about the County's long-term debt can be found in Note 7 in the accompanying notes to the financial statements.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2016

Economic Condition and Outlook

After having attained an A-Stable rating from Standard & Poors in December 2015, the County was able to move forward on refinancing outstanding bond issues from 2007 and 2008 and in March of 2016 completed the Bond issue which refunded those bond issues. The 2016 bond issue finally accomplished the complete conversion of the County's debt portfolio to a fixed rate mode. As a result of the refinancing, the County expects to save \$16,138,401 in debt service payments over the 20 year remaining life of the debt. In addition, the County, in June 2017, was able to complete a refunding of outstanding 2007B bonds and an advance refunding of 2010B bonds, which will allow the County to realize debt service savings amounting to \$5,251,491 over the remaining 19 year life of the former bond issues.

The County Commissioners continued to focus on streamlining County government, and continue to task managers to find ways to reduce the cost of County Government without sacrificing services to County residents. In 2015, the County entered into an agreement with Enterprise Leasing services, whereby the County is replacing its fleet of outdated, owned vehicles with a fleet of new leased vehicles, which will be replaced within five years of being placed into service. In May 2016, the County purchased a vacant building and began planning to renovate the building, with the intent to consolidate practically all County offices in the building once renovated. When the project is completed, the County estimates that it will be able to amortize the new debt it has incurred for renovations by redirecting the rent that we are now paying in order to house County offices. In fact, once we are able to move into the new building, we anticipate that the rent savings will annually amount to more than the expected debt service, and the County will save approximately \$120,000 annually. Constantly challenging County Department Heads to develop innovative programs, like those mentioned above, and continuing its efforts to manage costs, the County was again able to operate with a surplus, \$2,037,320 during 2016. Since 2013 the County has been recognizing annual operating surpluses. At December 31, 2015 the accumulated Unassigned General Fund surplus amounted to \$20,263,838 and at December 31, 2016 the Unassigned General Fund surplus was \$23,613,755.

The County's 2016 and 2017 budgets included no real estate tax increases. County operations exceeded budget expectations during 2016, and we expect that trend to continue through 2017.

Beginning 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 life sustaining jobs to the County and retaining jobs that already exist within the County. These programs have been successful in creating jobs to complete projects funded by the Community Reinvest program, and creating and expanding small businesses within the County through the SBA Loan Fee Waiver program. As of December 31, 2016, \$995,673 of the funds dedicated to the Commissioners' Economic Development programs remain 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 expectation of strengthening the local economy.

The Commissioners have also continued their commitment to allocate substantial funds for the upgrade and replacement of the aging County infrastructure. The Commissioners have appropriated, as they have since 2012, \$1,250,000 from the 2016 Operating Budget to fund this initiative. Through this initiative, the Commissioners are repairing roads and repairing and replacing bridges in order to continue enhancing the quality of life for residents of the County.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2016

The County plans to continue to pursue new and innovative programs to further the Commissioners' vision for enhancing the economic climate of the County. To further these initiatives, the County will continue to allocate funds in the annual budget while continuing to monitor expenditures and search for new revenue streams to enhance the County's financial operations.

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, 2016

	Governmental Activities	Component Units
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 30,151,637	\$ 15,354,909
Restricted cash	-	3,932,155
Investments	1,320,266	123,448
Restricted investments	-	1,563,163
Accounts receivable, net	3,455,818	140,495,430
Inventory	27,820	-
Due from agency fund	2,115,396	-
Due from other governments, net	10,425,732	9,485,022
Due from component units	6,893,710	-
Taxes receivable, net	10,350,709	348,953
Prepaid expenses	295,146	784,444
Total current assets	65,036,234	172,087,524
Capital Assets, Net	122,927,541	131,746,949
Cash Held for Capital Projects	8,996,008	-
Other Noncurrent Assets	-	566,515
Total assets	196,959,783	304,400,988
Deferred Outflows of Resources - Pension	11,200,189	589,034
Total assets and deferred outflows of resources	<u>\$ 208,159,972</u>	<u>\$ 304,990,022</u>
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)		
Current Liabilities		
Accounts payable	\$ 8,454,214	\$ 818,130
Accrued expenses	12,546,624	1,006,595
Current portion:		
Bond and notes payable	8,864,108	2,527,258
Compensated absences	224,597	500,126
Due to other governments	671,933	-
Due to primary government	-	4,044,046
Due to component unit	-	-
Unearned revenues	595,224	3,826,782
Escrow liability	-	9,519,693
Claims payable	1,535,434	-
Other liabilities	-	8,795
Total current liabilities	32,892,134	22,251,425
Noncurrent Liabilities		
Bonds and notes payable, net	208,370,300	38,931,936
Nonrecourse debt issues	-	138,058,385
Net pension liability	50,625,984	1,971,622
Investment derivative, pay variable / receive variable basis swap	7,128,362	-
Investment derivative, pay fixed / receive variable basis swap	-	640,756
Compensated absences	3,130,748	776,415
Total liabilities	302,147,528	202,630,539
Deferred Inflows of Resources		
Pension	1,162,707	-
Unearned contribution revenue	277,694	-
Deferred service concession arrangement receipts	-	550,000
Total deferred inflows of resources	1,440,401	550,000
Net Position (Deficit)		
Net investment in capital assets	(72,236,165)	88,692,816
Restricted	3,377,190	665,894
Unrestricted	(26,568,982)	12,450,773
Total net position (deficit)	(95,427,957)	101,809,483
Total liabilities, deferred inflows of resources and net position	<u>\$ 208,159,972</u>	<u>\$ 304,990,022</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2016

	General Fund	Health And Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Assets						
Cash and cash equivalents	\$ 17,360,277	\$ 1,743,298	\$ 6,704,544	\$ 8,996,008	\$ 4,343,518	\$ 39,147,645
Inventory	27,820	-	-	-	-	27,820
Due from other funds	9,650,760	281,454	75,000	775,618	75,774	10,858,606
Other receivables	1,023,900	-	749,229	-	1,682,689	3,455,818
Due from other governments, net	6,706,671	629,013	1,834,403	225,000	1,030,646	10,425,733
Prepaid expenses	305,159	-	-	-	-	305,159
Taxes receivable, net	10,350,709	-	-	-	-	10,350,709
Total	\$ 45,425,296	\$ 2,653,765	\$ 9,363,176	\$ 9,996,626	\$ 7,132,627	\$ 74,571,490
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 4,402,185	\$ 2,175,526	\$ 119	\$ 888,470	\$ 987,914	\$ 8,454,214
Accrued liabilities	1,513,970	37,829	-	-	50,739	1,602,538
Accrued pension	3,233,618	-	-	-	-	3,233,618
Due to other funds	898,111	232,584	337,300	5,788,788	1,486,427	8,743,210
Due to other governments	671,933	-	-	-	-	671,933
Unearned revenue	-	-	-	42,800	552,425	595,225
Total liabilities	10,719,817	2,445,939	337,419	6,720,058	3,077,505	23,300,738
Deferred Inflows of Resources						
Deferred tax revenue	9,763,072	-	-	-	-	9,763,072
Unearned contribution revenue	-	277,694	-	-	-	277,694
Total deferred inflows of resources	9,763,072	277,694	-	-	-	10,040,766
Fund Balances (Deficit)						
Non-spendable	332,979	-	-	-	-	332,979
Restricted	-	256,457	9,025,757	3,276,568	3,120,733	15,679,515
Assigned	995,673	-	-	-	973,919	1,969,592
Unassigned	23,613,755	(326,325)	-	-	(39,530)	23,247,900
Total fund balances	24,942,407	(69,868)	9,025,757	3,276,568	4,055,122	41,229,986
Total	\$ 45,425,296	\$ 2,653,765	\$ 9,363,176	\$ 9,996,626	\$ 7,132,627	\$ 74,571,490

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, 2016

Total Fund Balances - Governmental Funds	\$ 41,229,986
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.	(225,181)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	122,927,541
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.	9,763,072
Due from component units, consist of bonds and notes payable issued by the County and loaned to component units, are not due in the current period and therefore are not reported as receivables within the funds.	6,893,710
Deferred outflows of resources related to the net pension liability is included in the statement of net position.	11,200,189
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	\$ 217,234,408
Net pension liability	47,392,366
Compensated absences	<u>3,355,345</u>
	(267,982,119)
Deferred inflows of resources related to the net pension liability is included in the statement of net position.	(1,162,707)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	(7,128,362)
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>(3,554,086)</u>
Total Deficit - Governmental Activities	<u><u>\$ (95,427,957)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds
Year Ended December 31, 2016

	Major Funds					Total Governmental Funds
	General Fund	Health and Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Revenues						
Taxes	\$ 59,745,260	\$ -	\$ 19,059,230	\$ -	\$ 1,357,919	\$ 80,162,409
Payments in lieu of taxes	298,594	-	-	-	-	298,594
Intergovernmental	17,391,293	34,766,721	-	3,900,115	4,258,046	60,316,175
Charges for service	21,471,561	21,093	1,130,518	-	8,133,641	30,756,813
Court costs, fines and forfeitures	14,227	-	-	-	36,615	50,842
Interest and rent	86,508	5,621	7,909	4,957	6,592	111,587
Contributions and other	821,380	-	-	431,490	439,414	1,692,284
Total revenues	99,828,823	34,793,435	20,197,657	4,336,562	14,232,227	173,388,704
Expenditures						
Current:						
General government- administrative	20,508,635	207,036	28,750	-	45,530	20,789,951
General government - judicial	20,708,127	-	-	-	2,966,592	23,674,719
Public safety and corrections	32,861,323	-	-	-	4,016,679	36,878,002
Public works and enterprises	80,731	-	-	-	1,032,638	1,113,369
Health and human services	15,158,060	35,117,050	-	-	276,777	50,551,887
Culture and recreation	2,518,269	-	-	-	4,485,125	7,003,394
Community and economic development	435,882	-	-	-	1,487,417	1,923,299
Miscellaneous expenses	632,755	-	-	-	152,410	785,165
Debt service:						
Principal	-	-	9,284,361	-	-	9,284,361
Interest	14,595	-	9,854,566	-	-	9,869,161
Long-term debt issuance costs	-	-	1,117,408	97,450	-	1,214,858
Capital outlay	-	-	-	8,207,458	-	8,207,458
Total expenditures	92,918,377	35,324,086	20,285,085	8,304,908	14,463,168	171,295,624
Excess (Deficiency) of Revenues Over Expenditures	6,910,446	(530,651)	(87,428)	(3,968,346)	(230,941)	2,093,080
Other Financing Sources (Uses)						
Proceeds from issuance of long-term debt	-	-	72,301,901	97,450	-	72,399,351
Current refunding payment to Note trustee	-	-	(26,602,910)	-	-	(26,602,910)
Payments to bond escrow agent	-	-	(44,581,583)	-	-	(44,581,583)
Transfers in	2,574	-	-	2,550,000	1,392,095	3,944,669
Transfers out	(4,875,700)	-	-	-	(2,574)	(4,878,274)
Total other financing sources (uses)	(4,873,126)	-	1,117,408	2,647,450	1,389,521	281,253
Net change in fund balances	2,037,320	(530,651)	1,029,980	(1,320,896)	1,158,580	2,374,333
Fund Balances, Beginning	22,905,087	460,783	7,995,777	4,597,464	2,896,542	38,855,653
Fund Balances, Ending	\$ 24,942,407	\$ (69,868)	\$ 9,025,757	\$ 3,276,568	\$ 4,055,122	\$ 41,229,986

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and
Change in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2016

Total Net Change In Fund Balances - Governmental Funds \$ 2,374,333

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

Net loss of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities. 3,659

Capital outlay expenditures are capitalized in the statement of activities. 5,394,055

Depreciation expense on capital assets is reported in the statement of activities. (5,652,227)

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. 652,509

Revenues received in the current year related to long-term receivables is recognized within the statement of revenues, expenditures and changes in fund balance, but was previously recognized as revenue in the statement of activities. (500,000)

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. (72,399,351)

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. 77,580,856

Amortization of premiums and deferred refunding charges. (66,927)

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. (743,596)

In the statement of activities, certain operating expenses - pension, are measured by the amounts contributed towards future retirement during the current year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the change in the net pension liability, deferred outflows of resources, and deferred inflows of resources during the current period. (1,831,038)

Change in accrued interest on bonds payable. (1,001,190)

Change in compensated absences. 98,070

Change in Net Position of Governmental Activities \$ 3,909,153

County of Lackawanna, Pennsylvania

Statement of Net Deficit - Proprietary Fund

December 31, 2016

	<u>Internal Service Fund</u>
Assets	
Current Assets	
Investments	\$ 1,320,266
Prepaid expenses	<u>(10,013)</u>
Total	<u>\$ 1,310,253</u>
Liabilities and Net Deficit	
Current Liabilities	
Claims payable	\$ 1,535,434
Net Deficit	
Unrestricted	<u>(225,181)</u>
Total	<u>\$ 1,310,253</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, 2016

	Internal Service Fund
Operating Expenses	
Workers' compensation claims	\$ 889,208
Administrative	<u>33,605</u>
Total operating expenses	<u>922,813</u>
Operating loss	<u>(922,813)</u>
Nonoperating Revenues (Expenses)	
Unrealized loss on investments	(52,346)
Interest income	45,213
Transfer in	<u>933,605</u>
Total nonoperating revenues, net	<u>926,472</u>
Net income	3,659
Net Deficit, Beginning	<u>(228,840)</u>
Net Deficit, Ending	<u><u>\$ (225,181)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Cash Flows - Proprietary Fund

December 31, 2016

	Internal Service Fund
Cash Flows from in Operating Activities	
Cash payments for goods and services	\$ (14,254)
Cash payments for insurance claims	(919,351)
	<u>(933,605)</u>
Net cash used in operating activities	<u>(933,605)</u>
Cash Flows provided by Non-Capital Financing	
Transfers in from General Fund	<u>933,605</u>
Cash Flows from Investing Activities	
Interest income	45,213
Unrealized loss on investments	(52,346)
Sale of investments	7,133
	<u>-</u>
Net cash used in investing activities	<u>-</u>
Net change in cash	-
Cash, Beginning	<u>-</u>
Cash, Ending	<u><u>\$ -</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (922,813)
Adjustments to reconcile operating income to net cash used in operating activities:	
Prepaid expenses	19,351
Claims payable	(30,143)
	<u>(10,792)</u>
Net cash used in operating activities	<u><u>\$ (933,605)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2016

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 908,226	\$ 4,607,560	\$ 5,515,786
Accrued interest	579,815	-	579,815
Investments, at fair value:			
Federated money market funds	1,338,854	-	1,338,854
Certificates of deposit	5,693,114	-	5,693,114
U.S. government obligations	27,380,623	-	27,380,623
Tax exempt bonds	302,790	-	302,790
Corporate bonds	25,212,686	-	25,212,686
Common stocks	85,756,067	-	85,756,067
Mutual funds	13,551,677	-	13,551,677
Total investments	159,235,811	-	159,235,811
Total assets	\$ 160,723,852	\$ 4,607,560	\$ 165,331,412
Liabilities and Net Position			
Liabilities			
Accrued fees	\$ 17,512	\$ -	\$ 17,512
Escrow liabilities	-	2,492,164	2,492,164
Due to other funds	-	2,115,396	2,115,396
Total liabilities	17,512	\$ 4,607,560	4,625,072
Net Position			
Restricted for pensions	160,706,340		160,706,340
Total liabilities and net position	\$ 160,723,852		\$ 165,331,412

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Change in Fiduciary Net Position

Year Ended December 31, 2016

	Pension Trust Fund
Additions	
Contributions:	
Plan members	\$ 4,198,386
Employer	600,000
	<hr/>
Total contributions	4,798,386
	<hr/>
Investment Income (Loss)	
Net appreciation in fair value of investments	9,054,649
Interest	1,543,463
Dividends	1,445,547
Investment expense	(45,875)
	<hr/>
Net investment income	11,997,784
	<hr/>
Total additions	16,796,170
	<hr/>
Deductions	
Benefits paid	8,998,990
Participant contributions refunded	712,870
Death benefits paid	311,480
Administrative expenses	448,899
	<hr/>
Total deductions	10,472,239
	<hr/>
Increase in net position	6,323,931
	<hr/>
Net Position, Beginning	154,382,409
	<hr/>
Net Position, Ending	<u>\$ 160,706,340</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Balance Sheet - Discretely Presented Component Units
December 31, 2016

	Scranton Lackawanna Health and Welfare Authority	Lackawanna County Library System	Redevelopment Authority of Lackawanna County	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	County of Lackawanna Land Bank	Totals
Current Assets									
Cash and cash equivalents	\$ -	\$ 415,866	\$ 91,034	\$ 11,125,015	\$ 29,749	\$ 3,409,405	\$ 245,039	\$ 38,801	\$ 15,354,909
Restricted cash	20,493	-	-	-	3,911,662	-	-	-	3,932,155
Investments	-	-	-	-	123,448	-	-	-	123,448
Restricted investments	1,443,769	-	-	119,394	-	-	-	-	1,563,163
Due from other governments	8,056,454	-	-	-	1,428,568	-	-	-	9,485,022
Other receivables	138,058,385	82,349	-	978,887	638,309	187,500	550,000	-	140,495,430
Taxes receivable, net	-	347,571	-	1,382	-	-	-	-	348,953
Other current assets	-	398,287	-	106,572	277,516	2,069	-	-	784,444
Total current assets	147,579,101	1,244,073	91,034	12,331,250	6,409,252	3,598,974	795,039	38,801	172,087,524
Capital Assets Not Being Depreciated	-	50,000	-	579,693	33,486	1,850,000	-	-	2,513,179
Capital Assets, Net	-	989,152	-	53,188,394	22,309,324	47,174,274	5,572,626	-	129,233,770
Other Assets	11	-	-	566,504	-	-	-	-	566,515
Total	147,579,112	2,283,225	91,034	66,665,841	28,752,062	52,623,248	6,367,665	38,801	304,400,988
Deferred Outflows of Resources - Pension	-	-	-	-	589,034	-	-	-	589,034
Total assets and deferred outflows of resources	\$ 147,579,112	\$ 2,283,225	\$ 91,034	\$ 66,665,841	\$ 29,341,096	\$ 52,623,248	\$ 6,367,665	\$ 38,801	\$ 304,990,022
Liabilities									
Current liabilities:									
Accounts payable	\$ -	\$ 21,700	\$ -	\$ 374,320	\$ 414,610	\$ -	\$ 7,500	\$ -	\$ 818,130
Accrued expenses	1,023	-	-	71,341	652,848	221,921	59,462	-	1,006,595
Current portion of long-term debt	-	-	-	1,232,258	-	670,000	625,000	-	2,527,258
Current portion of compensated absences	-	-	-	500,126	-	-	-	-	500,126
Due to primary government	-	-	-	-	259,643	1,800,000	1,984,403	-	4,044,046
Unearned revenue	-	347,571	-	-	3,479,211	-	-	-	3,826,782
Escrow liability	9,519,693	-	-	-	-	-	-	-	9,519,693
Other liabilities	-	-	-	-	-	8,795	-	-	8,795
Total current liabilities	9,520,716	369,271	-	2,178,045	4,806,312	2,700,716	2,676,365	-	22,251,425
Investment derivative, pay fixed/receive variable basis swap	-	-	-	-	-	640,756	-	-	640,756
Long-term Debt	-	-	154,861	20,731,638	-	16,225,000	1,770,437	50,000	38,931,936
Net Pension Liability	-	-	-	-	1,971,622	-	-	-	1,971,622
Compensated Absences	-	67,703	-	158,970	549,742	-	-	-	776,415
Nonrecourse Debt Issues	138,058,385	-	-	-	-	-	-	-	138,058,385
Total liabilities	147,579,101	436,974	154,861	23,068,653	7,327,676	19,566,472	4,446,802	50,000	202,630,539
Deferred Inflows of Resources									
Deferred service concession arrangement receipts	-	-	-	-	-	-	550,000	-	550,000
Net Position									
Net investment in capital assets	-	1,039,152	-	31,804,391	22,342,810	30,329,274	3,177,189	-	88,692,816
Restricted	-	546,700	-	119,194	-	-	-	-	665,894
Unrestricted	11	260,399	(63,827)	11,673,603	(329,390)	2,727,502	(1,806,326)	(11,199)	12,450,773
Total net position	11	1,846,251	(63,827)	43,597,188	22,013,420	33,056,776	1,370,863	(11,199)	101,809,483
Total liabilities and deferred inflows of resources	\$ 147,579,112	\$ 2,283,225	\$ 91,034	\$ 66,665,841	\$ 29,341,096	\$ 52,623,248	\$ 6,367,665	\$ 38,801	\$ 304,990,022

See notes to financial statements

County of Lackawanna, Pennsylvania

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

Year Ended December 31, 2016

	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	County of Lackawanna Land Bank	Totals
Revenues									
Charges for services	\$ 110,252	\$ 240,000	\$ -	\$ 8,878,969	\$ 1,272,193	\$ -	\$ 625,000	\$ -	\$ 11,126,414
Real estate taxes	-	4,184,534	72,219	-	-	-	-	-	4,256,753
Rental income	5,555,001	-	-	-	-	892,081	-	-	6,447,082
Interest income	20,561	9	7	78,198	9,805	3,752	-	14	112,346
Operating grants and contributions	-	1,064,677	-	-	10,523,202	-	-	-	11,587,879
Capital grants and contributions	-	-	-	-	6,341,733	1,093,727	-	-	7,435,460
Other	124,770,809	27,850	20,177	653,229	274,367	468,453	-	-	126,214,885
Total revenues	130,456,623	5,517,070	92,403	9,610,396	18,421,300	2,458,013	625,000	14	167,180,819
Expenses									
Public works and enterprises	-	5,416,595	-	8,488,853	11,713,861	-	-	-	25,619,309
Culture and recreation	-	173,612	-	-	-	-	-	-	173,612
Operating expenses	58,108	-	27,237	-	-	69,301	76,596	-	231,242
Community and economic development	-	-	-	-	-	-	-	11,213	11,213
Debt service	130,398,513	-	4,739	287,085	-	589,693	183,083	-	131,463,113
Unallocated depreciation and amortization	-	-	-	-	1,725,801	1,519,020	303,617	-	3,548,438
Total expenses	130,456,621	5,590,207	31,976	8,775,938	13,439,662	2,178,014	563,296	11,213	161,046,927
Change in net position	2	(73,137)	60,427	834,458	4,981,638	279,999	61,704	(11,199)	6,133,892
Net Position (Deficit) Beginning									
As previously reported	9	1,919,388	(124,254)	42,762,730	17,245,462	32,776,777	1,309,159	-	95,889,271
Restatement	-	-	-	-	(213,680)	-	-	-	(213,680)
As restated	9	1,919,388	(124,254)	42,762,730	17,031,782	32,776,777	1,309,159	-	95,675,591
Net Position (Deficit), Ending	\$ 11	\$ 1,846,251	\$ (63,827)	\$ 43,597,188	\$ 22,013,420	\$ 33,056,776	\$ 1,370,863	\$ (11,199)	\$ 101,809,483

See notes to financial statements

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

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.

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

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 property tax 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.

Under the current financial resources measurement focus, only current financial assets and liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Amounts expended to acquire capital assets are recorded as expenditures in the year the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures are recorded only when payment is due.

Amounts reported as program revenues include charges to citizens, customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

The County reports the following nonmajor governmental funds:

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

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

Notes to Financial Statements
December 31, 2016

New Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and to provide guidance for applying fair value of certain investments and disclosures related to all fair value measurements. The effect of this adoption was to expand note disclosures related to fair value measurements.

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 adoption did not have a material impact on the County's 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 effect of tax abatement agreements to reduce the County's tax revenues were not material to the County for its year-ended December 31, 2016 and as such, the related expanded note disclosures were not included.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79, permits qualifying external investment pools to measure pool investments, which function similarly to private sector money market funds, at amortized cost. The Statement also establishes additional disclosure requirements, which includes information about any limitations or restrictions on participant withdrawals, for both the pool and its participants. The adoption did not have a material impact on the County's financial statements.

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.

Cash Held for Capital Projects

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

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.

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

	<u>Governmental Activities</u>	<u>Component Unit</u>
Infrastructure and airport	20 - 50 years	-
Land improvements	20 years	10 – 39 years
Buildings and improvements	25 years	10 – 40 years
Furniture and equipment	5 - 20 years	5 – 15 years
Collections	-	5 years
Plant and lines	-	25 – 40 years
Vehicles	-	5 – 12 years
Service concession arrangements	-	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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the County will sometimes report a separate section for deferred outflows (inflows) of resources. This separate financial statement element represents a consumption (acquisition) of net position that applies to a future period and so will not be recognized as an outflow (inflow) of resources until that time.

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.
- *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 Chief Financial Officer 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

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.

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. 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

Discretely Presented Component Units

Component units that are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government to emphasize that they are legally separate from the County. The following component units are discretely presented in the accompanying financial statements:

- The Scranton Lackawanna Health and Welfare Authority ("SLHWA") acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System ("LCLS") oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.
- The Redevelopment Authority of Lackawanna County ("RALC") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the RALC.
- The Lackawanna River Basin Sewer Authority ("LRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LRBSA.
- 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, 2016.
- 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 \$1,800,000. 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, 2016 approximately \$1,984,000 was due and payable from LCPACA to the County.
- The Lackawanna County Land Bank is a public authority created to efficiently acquire, hold, manage and develop foreclosed property, as well as other vacant and abandoned properties, for the purpose of returning such properties to the County's active tax role. The County Commissioners appoint the governing board of the Land Bank.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

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

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 2016, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately \$4,875,000 in its capital assets at December 31, 2016.
- 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

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 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities.
- Commercial paper and prime commercial paper meeting certain requirements.

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

Deposits with Financial Institutions

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a policy for custodial credit risk. At December 31, 2016, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$45,068,012 compared to the carrying amount of \$44,663,431. The difference is caused by items in-transit and outstanding checks. \$2,010,392 of the County's deposits were covered by federal depository insurance, \$6,738,101 of the County's deposits were uninsured and collateralized by specific securities pledged in the County's name by the financial institution and \$32,671,133 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, \$3,648,387 was exposed to custodial credit risk and was uninsured and not otherwise collateralized.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

PLGIT is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase “shares” in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Depository Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provide by law is pledged by the depository. Shares may be withdrawn at any time in any amount, with no liquidity fees or redemption gates. PLGIT/PLGIT PLUS have received an “AAm” rating from Standard and Poor’s, an independent credit rating agency. The County considers its deposits with PLGIT to be cash equivalents for financial reporting purposes. At December 31, 2016, the carrying amount and the bank balance of the County’s deposits with PLGIT was \$2,552,884.

The Pennsylvania Treasurer’s INVEST Program for Local Governments and Nonprofits, (“INVEST”) is a program of two investment pools designed specifically for local government and nonprofit groups. INVEST functions similarly to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase “shares” in INVEST, which invests the proceeds in: obligations of the United States Government; repurchase agreements with bank and non-bank financial institutions and other debt instruments of banks, financial institutions, and non-financial institutions authorized for the shareholder by Commonwealth of Pennsylvania Statute (this would include certificates of deposit and money market funds). Deposits held by INVEST are not insured by the Federal Depository Insurance Corporation; however, deposits are collateralized with securities held by the pledging institution, but not in the County’s name. Shares may be withdrawn at any time, with no liquidity fees or redemption gates. INVEST has received an “AAAm” rating from Standard and Poor’s, an independent credit rating agency. The County considers its deposits with INVEST to be cash equivalents for financial reporting purposes. At December 31, 2016, the carrying amount and the bank balance of the County’s deposits with INVEST was \$1,045,503.

Investments

As of December 31, 2016, 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	\$ 1,306,793
Money market funds	N/A	13,473
		<u>13,473</u>
Total		<u>\$ 1,320,266</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

Pension Trust Fund	<u>Maturities</u>	<u>Fair Value</u>
Common stock	N/A	\$ 85,756,067
Corporate and tax-exempt bonds	1 - 30 years	25,515,476
U.S. government obligations	6 - 30 years	27,380,623
Mutual funds	N/A	13,551,677
Certificates of deposit	N/A	5,693,114
Money market	N/A	<u>1,338,854</u>
Total		<u>\$ 159,235,811</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.

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, 2016, 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, 2016:

<u>Investment</u>	<u>S&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, 2016:

<u>Investment</u>	<u>S&P Rating</u>	<u>%</u>
U.S. government obligations	AA+	52.1 %
Corporate bonds	AAA	14.2
Corporate bonds	AA	2.7
Corporate bonds	AA+	1.7
Corporate bonds	AA-	3.6
Corporate bonds	A	4.5
Corporate bonds	A+	5.8
Corporate bonds	A-	8.8
Corporate bonds	BBB	1.8
Corporate bonds	BBB+	3.4
Corporate bonds	BBB-	<u>1.4</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, 2016.

County of Lackawanna, Pennsylvania

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Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. This hierarchy is based on the valuation inputs used to measure the fair value of the assets. The three levels of the fair value hierarchy are:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, directly or indirectly, for substantially the full-term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured, on a recurring basis, at fair value as of December 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Governmental activities:				
U.S. government agency	\$ 1,306,793	\$ -	\$ 1,306,793	\$ -
Money market	13,473	13,473	-	-
Total governmental activities	<u>1,320,266</u>	<u>13,473</u>	<u>1,306,793</u>	<u>-</u>
Pension trust fund:				
Money market funds	1,338,854	1,338,854	-	-
Certificates of deposit	5,693,114	5,693,114	-	-
U.S. government obligations	27,380,623	12,218,004	15,162,619	-
Corporate bonds	25,212,686	-	25,212,686	-
Tax exempt bonds	302,790	-	302,790	-
International mutual funds	13,551,677	13,551,677	-	-
Common stock:				
Consumer discretionary	11,993,935	11,993,935	-	-
Consumer staples	4,109,608	4,109,608	-	-
Energy	6,005,877	6,005,877	-	-
Financials	13,883,227	13,883,227	-	-
Healthcare	11,323,157	11,323,157	-	-
Industrials	11,845,095	11,845,095	-	-
Information technology	22,922,658	22,922,658	-	-
Other	3,672,510	3,672,510	-	-
Total pension trust fund	<u>159,235,811</u>	<u>118,557,716</u>	<u>40,678,095</u>	<u>-</u>
Total investments	<u>\$ 160,556,077</u>	<u>\$ 118,571,189</u>	<u>\$ 41,984,888</u>	<u>\$ -</u>
Investment derivative (liability)	<u>\$ (7,128,362)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,128,362)</u>

County of Lackawanna, Pennsylvania

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Money market funds, certificates of deposit, common stocks, mutual funds, and U.S. government obligations classified in Level 1 of the hierarchy are valued using prices quoted in active markets for those securities. U.S. government obligations, corporate bonds, and tax-exempt bonds classified in Level 2 of the hierarchy are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Derivative instruments classified in Level 3 of the hierarchy are valued using a valuation model based on current and expected market interest rates. (Note 9).

4. Due from Other Governments

The amounts reported in the County's various governmental funds at December 31, 2016 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General fund	\$ 315,812	\$ 5,858,192	\$ 532,667	\$ 6,706,671
Health and human services fund	-	611,261	17,752	629,013
Debt service fund	-	1,834,403	-	1,834,403
Capital projects fund	-	75,000	150,000	225,000
Non-major funds	-	-	1,030,646	1,030,646
Total	<u>\$ 315,812</u>	<u>\$ 8,378,856</u>	<u>\$ 1,731,065</u>	<u>\$ 10,425,733</u>

Amounts due from the federal and state government are primarily federal and Commonwealth of Pennsylvania grant awards receivable at December 31, 2016. The amount due from local governments represents various receivables from other units of local government.

5. Real Estate Taxes

The total tax on real estate in 2016 was 57.420 mills (\$0.057420 per \$1,000 of assessed valuation). Of this amount, 53.600 mills were levied for general and debt service purposes, 2.820 mills were levied for library services in the County and 1.000 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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

Delinquent real estate taxes receivable at December 31, 2016 were approximately \$27,370,036. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$17,019,327.

6. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2016, was as follows:

	January 1, 2016	Acquisitions	Disposals	Transfer	December 31, 2016
Capital assets not being depreciated:					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	1,648,608	2,134,189	-	(104,268)	3,678,529
Total capital assets, not being depreciated	5,181,843	2,134,189	-	(104,268)	7,211,764
Capital assets being depreciated:					
Buildings and improvements	122,573,364	178,103	-	-	122,751,467
Machinery and equipment	44,256,845	1,757,567	-	-	46,014,412
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	49,994,667	1,324,196	-	104,268	51,423,131
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	226,975,768	3,259,866	-	104,268	230,339,902
Less accumulated depreciation for:					
Buildings and improvements	(36,950,649)	(2,966,643)	-	-	(39,917,292)
Machinery and equipment	(37,033,540)	(1,740,852)	-	-	(38,774,392)
Equipment under capital lease	(972,084)	(94,888)	-	-	(1,066,972)
Infrastructure	(30,323,872)	(688,615)	-	-	(31,012,487)
Investment in Airport	(3,691,753)	(161,229)	-	-	(3,852,982)
Total accumulated depreciation	(108,971,898)	(5,652,227)	-	-	(114,624,125)
Net capital assets being depreciated	118,003,870	(2,392,361)	-	104,268	115,715,777
Governmental activities capital assets, net	<u>\$ 123,185,713</u>	<u>\$ (258,172)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,927,541</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

Capital asset balances for discretely presented component units at December 31, 2016, were as follows:

	Lackawanna County Library System	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	Total
Capital assets not being depreciated:						
Land	\$ 50,000	\$ 518,017	\$ 33,486	\$ 1,850,000	\$ -	\$ 2,451,503
Construction in process	-	61,676	-	-	-	61,676
Total capital assets, not being depreciated	50,000	579,693	33,486	1,850,000	-	2,513,179
Capital assets being depreciated:						
Infrastructure Buildings and improvements	-	72,576,105	-	-	-	72,576,105
Collections	1,760,122	-	18,194,391	52,410,782	7,641,018	80,006,313
Equipment and furnishings	665,920	-	-	-	-	665,920
Land improvements	73,365	1,626,293	2,709,721	3,915,411	1,186,885	9,511,675
Vehicles	-	35,825	-	-	3,468,796	3,504,621
Service concession assets	-	284,826	22,522,318	-	-	22,807,144
Less: Accumulated depreciation	-	-	-	-	224,107	224,107
Less: Accumulated depreciation	(1,510,255)	(21,334,655)	(21,117,106)	(9,151,919)	(6,948,180)	(60,062,115)
Net capital assets being depreciated	989,152	53,188,394	22,309,324	47,174,274	5,572,626	129,233,770
Capital assets, net	\$ 1,039,152	\$ 53,768,087	\$ 22,342,810	\$ 49,024,274	\$ 5,572,626	\$ 131,746,949

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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7. Long-Term Obligations

Description	January 1, 2016	Additions	Payments/ Refunding	December 31, 2016	Current Portion
A. GO Bonds, Series A of 2007	\$ 14,225,000	\$ -	\$ (14,225,000)	\$ -	\$ -
B. GO Bonds, Series B of 2007	17,780,000	-	(55,000)	17,725,000	55,000
C. GO Notes, Series A of 2008	44,500,000	-	(44,500,000)	-	-
D. GO Notes, Series D of 2008	10,684,207	-	(1,316,494)	9,367,713	1,262,178
E. GO Bonds, Series E of 2008	12,515,000	-	(12,515,000)	-	-
F. GO Bonds, Series A of 2009	7,295,000	-	(15,000)	7,280,000	15,000
G. GO Notes, Series B of 2009	26,460,000	-	(5,000)	26,455,000	10,000
H. GO Notes, Series A of 2010	1,740,000	-	(397,000)	1,343,000	430,000
I. GO Bonds, Series B of 2010	58,290,000	-	(50,000)	58,240,000	100,000
J. GO Notes, Series of 2011	13,771,000	-	(2,031,000)	11,740,000	2,131,000
K. GO Notes, Series A of 2013	2,201,280	-	(266,611)	1,934,669	274,423
L. GO Notes, Series of 2014	2,587,000	-	(628,000)	1,959,000	640,000
M. GO Notes, Series A of 2014	2,063,722	-	(102,084)	1,961,638	106,938
N. GO Notes, Series B of 2014	5,193,575	-	(289,667)	4,903,908	298,569
O. GO Note, Series of 2015	7,211,000	-	(1,150,000)	6,061,000	1,176,000
P. GO Note, Series A of 2016	-	44,655,000	(30,000)	44,625,000	430,000
Q. GO Note, Series B of 2016	-	25,160,000	(5,000)	25,155,000	1,935,000
R. GO Note, Series C of 2016	-	97,450	-	97,450	-
Total	226,516,784	69,912,450	(77,580,856)	218,848,378	8,864,108
Bond premiums, discounts and deferred refunding	(4,167,798)	1,601,792	952,036	(1,613,970)	-
	<u>\$ 222,348,986</u>	<u>\$ 71,514,242</u>	<u>\$ (76,628,820)</u>	<u>\$ 217,234,408</u>	<u>\$ 8,864,108</u>

Governmental Activities

- A. 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 3.80% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009 through the County's issuance of its General Obligation Notes, Series B of 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 2016, the County advance refunded the remaining outstanding bonds through the issuance of its General Obligation Bonds, Series B of 2016.
- B. 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 through the County's issuance of its General Obligation Notes, Series B of 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

- C. During 2008, the County issued \$44,540,000 of General Obligation Notes (Series A of 2008). The proceeds of the Series A notes were used to 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 (5.50% at December 31, 2016 for Series A) with final maturity scheduled for September 2035. 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. During 2016, the County currently refunded the outstanding bonds through the issuance of its General Obligation Bonds, Series A of 2016.
- D. During 2008, the County issued \$13,858,652 (Series D of 2008) of zero coupon General Obligation Notes (capital appreciation notes). The proceeds of the Series D notes 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 notes are due in varying installments that yield to maturity at rates ranging from 6.42% to 7.50% with final maturity scheduled for July 2023.
- E. During 2008, the County issued \$17,960,000 of General Obligation Bonds (Series E of 2008). The proceeds of the bonds were used to advance refund a portion of the County's General Obligation Bonds, Series A of 1999; finance the cost of certain capital projects of the County; and, pay the costs and expenses of issuing the Bonds. The bonds are due in varying annual installments plus interest at rates ranging from 5.00% to 6.25%, with final maturity schedule for January 2022. During 2016, the County advance refunded the outstanding bonds through the issuance of its General Obligation Bonds, Series B of 2016.
- F. 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.
- G. 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.
- H. 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 \$298,901 in principal during 2016, on its share of this obligation. Principal due in 2017 on the County's share of this borrowing is \$106,253. 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, 2016, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 15.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

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- I. 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 2.85% 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.

- J. 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.
- K. During 2013, the County issued \$2,834,108 of General Obligation Notes (Series A of 2013) 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.
- L. During 2014, the County issued \$2,587,000 of General Obligation Notes (Series of 2014). 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.
- M. During 2014, the County issued \$2,172,492 of taxable General Obligation Notes (Series A of 2014). 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.
- N. During 2014, the County issued \$5,492,941 of General Obligation Notes (Series B of 2014). 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.

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- O. During 2015, the County issued \$7,891,000 Taxable General Obligation Note (Series of 2015). The proceeds of this were used to currently refund the County's outstanding General Obligation Note, Series A of 2012; currently refund the County's outstanding General Obligation Note, Series B of 2012; and pay the costs and expense of issuance of the Note. The Note is due in varying semi-annual installments of principal and interest at a fixed-rate of 2.290% with final maturity scheduled for October 2020.
- P. During 2016, the County issued \$44,655,000 of General Obligation Bonds (Series A of 2016) to currently refund the County's outstanding General Obligation Notes, Series A of 2008 and pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual installments of principal and interest at rates ranging from 3.00 to 5.00%, with final maturity scheduled for September 2033. This refunding reduced the County's total debt service payments over the next 20 years by approximately \$15,245,000, resulting in a net economic gain of approximately \$11,280,000.
- Q. During 2016, the County issued \$25,160,000 of General Obligation Bonds (Series B of 2016) to: Advance refund the County's outstanding General Obligation Bonds, Series A of 2007; Advance refund the County's outstanding General Obligation Bonds, Series E of 2008; and, pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual payments of principal and interest at rates ranging from 2.50% to 5.00%, with final maturity scheduled for September 2029. This refunding reduced the County's total debt service payments over the next 14 years by approximately \$1,066,000, resulting in a net economic gain of approximately \$1,424,000.
- R. During 2016, the County issued \$17,000,000 of General Obligation Note, Series of 2016. The proceeds of the note are to be used to finance the acquisition, planning, design, construction, renovation, furnishing and equipping of new facilities of the County consisting of the property formerly known as the Globe Store to be used for County governmental offices and to pay the costs and expense of issuance of the note. The note is due in varying monthly installments of principal and interest at rates ranging from 2.750% to 3.750%, with final maturity scheduled for 2041. The note is a multiple advance draw note allowing for the County to draw funds when and as needed for the project. At December 31, 2016, the County had drawn \$97,450 on this note.

Interest paid on these bonds and notes during the year ended December 31, 2016 amounted to \$11,677,151, including swap related interest payments amounting to approximately \$300,000.

County of Lackawanna, Pennsylvania

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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, 2016. 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>
2017	\$ 8,864,108	\$ 10,181,325	\$ 19,045,433
2018	10,287,679	10,007,694	20,295,373
2019	10,487,609	9,792,981	20,280,590
2020	10,209,721	9,974,941	20,184,662
2021	8,583,908	11,599,733	20,183,641
2022-2026	52,428,930	37,877,272	90,306,202
2027-2031	64,366,423	21,931,818	86,298,241
2032-2036	53,620,000	6,123,150	59,743,150
Total	<u>\$ 218,848,378</u>	<u>\$ 117,488,914</u>	<u>\$ 336,337,292</u>

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, 2016, the amount of defeased bonds outstanding was \$45,405,000.

At December 31, 2016, the following bonds outstanding had been defeased by the County:

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2016</u>
General Obligation Bonds, Series A of 1999	2022	\$ 6,915,000
General Obligation Bonds, Series B of 2007	2022	6,340,000
General Obligation Bonds, Series A of 2007	2029	15,110,000
General Obligation Bonds, Series E of 2008	2022	10,335,000
General Obligation Notes, Series C of 2008	2029	6,705,000
Total		<u>\$ 45,405,000</u>

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Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2016:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying installments plus interest at 4.25%, maturing 2022.	\$ 154,861
<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.	979,188
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.	<u>20,984,708</u>
Total Lackawanna River Basin Sewer Authority	<u>21,963,896</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 \$4,563.	1,020,000
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>1,380,000</u>
Total Lackawanna County Performing Arts Center Authority	<u>2,400,000</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, 2016 was .78%. Final maturity scheduled for July 2036.	<u>16,895,000</u>
<u>Lackawanna County Land Bank</u>	
Note payable to Lackawanna County Community Development Revolving Loan account, bearing no interest.	<u>50,000</u>
Total Discretely Presented Component Units	<u>\$ 41,463,757</u>

County of Lackawanna, Pennsylvania

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

Years ending December 31:	
2017	\$ 2,527,258
2018	2,576,185
2019	2,587,064
2020	2,297,138
2021	1,227,988
2022 - 2026	10,646,098
2027 - 2031	11,751,020
2032 - 2036	6,806,006
2037	<u>1,045,000</u>
Total	<u>\$ 41,463,757</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, 2016, there was one general obligation bond issue outstanding and nine notes and mortgages outstanding with an aggregate balance of \$138,058,385.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

8. 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. During 2016, the Operator did not provide notice of termination. 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 pursuant to a contract which expired December 31, 2013. In March 2016, the third amendment to the agreement required the operator to reimburse the Authority \$75,000 for Sheriff's office costs for the 2015 concert season. In April 2017, the fourth amendment to the agreement required the operator to pay the Authority an additional yearly rental fee in an amount equal to \$1.50 per paid ticket starting with the 2017 concert season. The amount the Authority would receive on each paid ticket would increase \$.25 every subsequent year until 2021, which is the final year of the concession agreement. The fourth amendment also gives the Operator the option to opt out of the agreement for the subsequent year if notice is given to the Authority by June 15. 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.

Deferred inflows of resources reported in the statement of net position as deferred service concession arrangements consisted of unearned revenue \$550,000.

9. 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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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.

Fair Value

At December 31, 2016, the swap had a negative fair value of \$7,128,362, which is reported as investment derivative - pay variable / receive variable basis swap in the governmental activities section of the statement of net position. 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, 2016, 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, 2016, 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2016

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.

Derivative Financial Instrument - Interest Rate Swap - Component Unit

Objective of the Basis Swap

The MPSA entered into the interest rate swap transaction in connection with the issuance of its debt for the purpose of managing the interest rate payments on the debt.

Terms

During 2013, the MPSA entered into a pay-fixed, receive-variable interest rate swap with PNC Bank on its Variable Rate Demand Hotel Room Rental Tax Bond Revenues, Series of 2013. The agreement terminates on July 1, 2023. The notional value of the swap at inception was \$18,970,000 and was \$16,910,000 at December 31, 2016. The MPSA receives a variable rate of interest based on the Weekly Rate of the SIFMA Municipal Swap Index (0.643743%) at December 31, 2016 from PNC Bank and pays a fixed rate of interest of 2.336%. The swap creates an average synthetic variable interest rate of 1.6923% as of December 31, 2016. No cash was paid or received when the swap was originated.

Fair Value

At December 31, 2016, the swap had a negative fair value of \$640,756, which is reported as investment derivative - pay fixed / receive variable basis swap in the component units section of the statement of net position. Changes in the fair value are reported as investment income in the component units section of the statement of activities.

Basis Risk

The MPSA's variable rate interest receipts on its basis swaps are equivalent to the Weekly Rate of the SIFMA Municipal SWAP Index. The MPSA's net debt service may increase or decrease to the extent that the relationship between the floating index changes over time.

Interest Rate Risk

The swap increases the MPSA's exposure to interest rate risk. As the SIFMA Municipal SWAP Index decreases, the MPSA's net payments on the swap increases.

Termination Risk

The MPSA or PNC Bank may terminate the swaps if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swaps have a negative fair value, the MPSA would be liable to PNC Bank for that amount.

County of Lackawanna, Pennsylvania

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Credit Risk

As of December 31, 2016, the MPSA was not exposed to credit risk because the 2013 Swap had a negative fair value. However, should interest rates change and the fair value of the 2013 Swap become positive, the MPSA would be exposed to credit risk in the amount of the derivative's fair value.

Rollover Risk

As of December 31, 2016, the MPSA was exposed to rollover risk because the 2013 Swap is scheduled to mature on July 1, 2023, while the hedged debt is scheduled to mature in July 2036.

10. Compensated Absences

The changes in the County's compensated absences in 2016 are summarized as follows:

Balance, January 1, 2016	\$ 3,453,415
Increase	2,008,420
Decrease	<u>(2,106,490)</u>
Balance, December 31, 2016	3,355,345
Less current portion	<u>224,597</u>
Long-term compensated absences	<u>\$ 3,130,748</u>

The County pays its compensated absences from the General Fund.

11. Pension Plan

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 Nos. 67 and 68, may be obtained from the County Commissioner's office.

County of Lackawanna, Pennsylvania

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Membership of the Plan consisted of the following at December 31, 2015, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	694
Terminated plan members entitled to but not yet receiving benefits	237
Active plan members	<u>1,039</u>
Total	<u><u>1,970</u></u>
Number of participating employers	<u><u>1</u></u>

Benefits Provided

Lackawanna County Employees Pension Plan provides retirement, disability, and death benefits. Retirement benefits for plan members are calculated as a percent of the member's highest 3-year average salary times the member's years of service depending on class basis. Plan members with 20 years of service are eligible to retire at age 55. Plan members that have attained age 60 are eligible to retire. All plan members are eligible for disability benefits after 5 years of service if disabled while in service and unable to continue as a county employee. Disability retirement benefits are equal to 25% of highest average salary at time of retirement. Death benefits for a member who dies with 10 years of service prior to retirement is the total present value of member's retirement paid in a lump sum. A plan member who leaves County service with less than 5 years of service may withdraw his or her contributions, plus any accumulated interest.

Funding Policy and Contributions

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 annual required contribution was determined based on the most recent annual actuarial valuation dated December 31, 2015. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually; (b) 4.5% and (c) no postretirement benefit increases. The rate of return and projected salary increases includes an inflation component of 3.0%. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

Deposits and Investments

The Plan allows funds to be invested pursuant to a strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of asset classes, as approved by the Authority Board, and established the following target allocation across asset categories:

<u>Asset Class</u>	<u>Target</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	40 - 60 %	5.4 - 6.4 %
International equity	0 - 20	5.5 - 6.5
Fixed income	30 - 50	1.3 - 3.3
Cash	0 - 10	0.0 - 1.0

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2016 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was (0.77%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The components of the net pension liability of the Plan as of December 31, 2016 were as follows:

Total pension liability	\$ 205,008,393
Plan fiduciary net position	<u>154,382,409</u>
Plan net pension liability	<u>\$ 50,625,984</u>
Plan fiduciary net position as a percentage of total pension liability	<u>75.31 %</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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2016

Changes in the Net Pension Liability

The changes in the County's net pension liability during the year ended December 31, 2016 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2016	\$ 195,878,761	\$ 161,487,164	\$ 34,391,597
Changes for the year:			
Service cost	6,108,365	-	6,108,365
Interest cost	14,512,054	-	14,512,054
Changes for experience	(1,363,174)	-	(1,363,174)
Changes of assumptions	-	-	-
Contributions - employer	-	600,000	(600,000)
Contributions - member	-	4,238,646	(4,238,646)
Net investment income	-	(1,350,579)	1,350,579
Benefit payments, including refunds	(10,127,613)	(10,127,613)	-
Plan administrative expenses	-	(465,209)	465,209
Net changes	9,129,632	(7,104,755)	16,234,387
Balances at December 31, 2016	<u>\$ 205,008,393</u>	<u>\$ 154,382,409</u>	<u>\$ 50,625,984</u>

In connection with the Actuarial Valuation for the 2016 measurement period, the actuary adjusted the treatment of the County member reserve accounts and the member contributions. Heretofore, the member reserve accounts and member contributions, which earn a guaranteed rate of interest, were included as a part of the total pension liability. During 2016, following research and consultation with the GASB, the actuary determined that the member reserve accounts and member contributions did not constitute a plan liability and thus removed that portion of the liability and adjusted the beginning deferred outflow or resources to offset the difference for the change in experience.

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 Plan.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2016 using the following actuarial methods and assumptions:

Actuarial valuation date	January 1, 2016
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	4.5%
Inflation	3.0%
Interest rate	7.5%
Asset valuation method	Building-Block method

County of Lackawanna, Pennsylvania

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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, 2016 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.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.50%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the actuarially determined contribution rates.

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1% point lower (6.50%) or 1% point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.50%)</u>
Net pension liability	\$ 67,742,613	\$ 50,625,984	\$ 35,663,826

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2016, the County recognized pension expense of \$3,991,860. At December 31, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,162,707
Net difference between projected and actual earnings on investments	10,600,189	-
County contributions subsequent to the measurement date	<u>600,000</u>	<u>-</u>
Total	<u>\$ 11,200,189</u>	<u>\$ 1,162,707</u>

\$600,000 was reported as deferred outflows of resources related to pensions resulting from County contributions made subsequent to the measurement date (December 31, 2015), but prior to the financial statement date (December 31, 2016), which will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

County of Lackawanna, Pennsylvania

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 2,449,580
2018	2,449,580
2019	2,449,580
2020	2,449,580
2021	(200,467)
Thereafter	(160,373)

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	305,159	-	-	-	-	305,159
Total non-spendable	<u>\$ 332,979</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,979</u>
Restricted for:						
Grant programs	\$ -	\$ 256,369	\$ -	\$ -	\$ 3,120,733	\$ 3,377,102
Debt service	-	-	9,025,757	-	-	9,025,757
Capital projects	-	-	-	3,276,568	-	3,276,568
Total restricted	<u>\$ -</u>	<u>\$ 256,369</u>	<u>\$ 9,025,757</u>	<u>\$ 3,276,568</u>	<u>\$ 3,120,733</u>	<u>\$ 15,679,427</u>
Assigned for:						
Economic development	\$ 995,673	\$ -	\$ -	\$ -	\$ -	\$ 995,673
Program purposes	-	-	-	-	973,919	973,919
Total assigned	<u>\$ 995,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 973,919</u>	<u>\$ 1,969,592</u>

13. Deficit Fund Balances

The individual health and human service fund department that has a net deficit balance at December 31, 2016 is the Area Agency on Aging with a deficit of \$326,325. Such deficit 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 future operating subsidy payments.

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The individual non-major fund that has a net deficit balance at December 31, 2016 is the Domestic Relations Fund with a deficit of \$39,530. Such deficit 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 2017 operating subsidy payments.

The Internal Service Fund has a net deficit of \$225,181 at December 31, 2016. 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 \$63,827 at December 31, 2016. 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 employee medical insurance plan. The County has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the County for any medical costs over \$50,000 per covered individual per year. The County believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The County has recorded an asset for payments in excess of all asserted and estimated unasserted claims amounting to \$611,707, recorded within its General Fund other receivables at December 31, 2016. The cost of medical coverage for employees was approximately \$7,600,000 in 2016.

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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Balance, January 1	\$ 1,565,577	\$ 1,552,871
Claims incurred	859,065	1,196,167
Claims paid	<u>(889,208)</u>	<u>(1,183,461)</u>
Balance, December 31	<u>\$ 1,535,434</u>	<u>\$ 1,565,577</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

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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.

15. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2016 are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 9,650,760	\$ 898,111
Health and Human Services Fund	281,454	232,584
Debt Service Fund	75,000	337,300
Capital Projects Fund	775,618	5,788,788
Non-Major Funds	75,774	1,486,427
Agency Fund	-	2,115,396
Total	<u>\$ 10,858,606</u>	<u>\$ 10,858,606</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 General Fund \$5,500,000 for future projects.

County of Lackawanna, Pennsylvania

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Interfund transfers in 2016 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Capital Projects Funds	\$ -	\$ 2,550,000
Non-Major Funds	2,574	1,392,095
Internal Service Fund	-	933,605
Total General Fund	2,574	4,875,700
Capital Projects Funds, General Fund	2,550,000	-
Non-Major Funds, General Fund	1,392,095	2,574
Internal Service Fund, General Fund	933,605	-
Totals	<u>\$ 4,878,274</u>	<u>\$ 4,878,274</u>

The General Fund transferred funds to the Capital Projects Fund in the total amount of \$2,550,000 to fund future capital projects (\$1,300,000) and to fund future infrastructure improvements (\$1,250,000), to the Non-Major Funds \$1,392,095 for operating subsidies of Liquid Fuels, Domestic Relations, and Community Development funds and to the Internal Service Fund \$933,605 to fund workers compensation claims incurred by the County during the year.

Due From/To Component Units

The County has advanced \$2,300,000 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.

The County has advanced \$1,994,078 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility (\$175,000) and to fund debt service payments (\$1,819,078). In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of \$5,096,710 within its governmental activities statement of net position.

County of Lackawanna, Pennsylvania

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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.

17. Concentration of Labor

At December 31, 2016, approximately 66% of the County's employees are represented by unions.

18. New Accounting Pronouncements

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The County is required to adopt Statement No. 80 for its calendar 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution requirements. The County is required to adopt Statement No. 82 for its calendar 2017 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The County is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). To the extent applicable, the County is required to adopt Statement No. 85 for its calendar 2018 financial statements.

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December 31, 2016

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The County is required to adopt Statement No. 86 for its calendar 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying asset. The County is required to adopt Statement No. 87 for its calendar year 2020 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 statements.

19. Subsequent Event

In May 2017, the County issued its General Obligation Bonds, Series of 2017 in the principal amount of \$58,490,000, for the purposes of (1) currently refund the County's outstanding General Obligation Bonds, Series B of 2007; (2) advance refund a portion of the County's outstanding General Obligation Bonds, Series B of 2010; and, (3) to pay the costs of issuance of the bonds. The Bonds are due in varying semi-annual installments of principal and interest at rates ranging between 2.00% and 5.00% per annum, with final maturity scheduled for September 2035. In addition, the County amended its 2010 Interest Rate Swap agreement to associate the Swap with its Series of 2017 Bonds.

County of Lackawanna, Pennsylvania

Schedule of Revenues, Expenditures and Changes in Fund Balances -
 General and Debt Service Funds Budget And Actual - Unaudited
 Year Ended December 31, 2016

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 59,226,320	\$ 59,745,260	\$ 518,940	\$ 19,228,800	\$ 19,059,230	\$ (169,570)
Payments in-lieu of taxes	277,700	298,594	20,894	-	-	-
Intergovernmental	18,728,114	17,391,293	(1,336,821)	-	-	-
Charges for services	20,441,804	21,471,561	1,029,757	-	1,130,518	1,130,518
Interest and rent	20,666	14,227	(6,439)	-	7,909	7,909
Court costs, fines and forfeitures	51,000	86,508	35,508	-	-	-
Contributions and other	306,600	821,380	514,780	-	-	-
Total revenues	99,052,204	99,828,823	776,619	19,228,800	20,197,657	968,857
Expenditures						
General government - administrative	19,184,514	20,508,635	(1,324,121)	-	28,750	(28,750)
General government - judicial	20,538,082	20,708,127	(170,045)	-	-	-
Public safety and corrections	34,598,708	32,861,323	1,737,385	-	-	-
Public works and enterprises	109,070	80,731	28,339	-	-	-
Health and human services	18,002,207	15,158,060	2,844,147	-	-	-
Culture and recreation	2,730,906	2,518,269	212,637	-	-	-
Community and economic development	416,577	435,882	(19,305)	-	-	-
Miscellaneous expense	612,005	632,755	(20,750)	-	-	-
Debt service:						
Principal	-	-	-	8,505,709	9,284,361	(778,652)
Interest	60,000	14,595	45,405	10,813,005	9,854,566	958,439
Note issuance costs	-	-	-	-	1,117,408	(1,117,408)
Total expenditures	96,252,069	92,918,377	3,333,692	19,318,714	20,285,085	(966,371)
Excess (Deficiency) of Revenues Over Expenditures	2,800,135	6,910,446	4,110,311	(89,914)	(87,428)	2,486
Other Financing Sources (Uses)						
Note proceeds	-	-	-	-	72,301,901	72,301,901
Current refunding payment to Note trustee	-	-	-	-	(26,602,910)	(26,602,910)
Payments to bond escrow agent	-	-	-	-	(44,581,583)	(44,581,583)
Transfers in	-	2,574	2,574	-	-	-
Transfers out	(4,695,400)	(4,875,700)	(180,300)	-	-	-
Total other financing sources (uses), net	(4,695,400)	(4,873,126)	(177,726)	-	1,117,408	1,117,408
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	(1,895,265)	2,037,320	3,932,585	(89,914)	1,029,980	1,119,894
Fund Balance, Beginning	11,211,295	22,905,087	11,693,792	1,612,505	7,995,777	6,383,272
Fund Balance, Ending	\$ 9,316,030	\$ 24,942,407	\$ 15,626,377	\$ 1,522,591	\$ 9,025,757	\$ 7,503,166

County of Lackawanna, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 Year Ended December 31, 2016
 (Unaudited)

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 6,108,365	\$ 5,624,600
Interest cost	14,512,054	13,899,310
Differences between expected and actual experience	(1,363,174)	(509,255)
Changes in assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(10,127,613)</u>	<u>(10,320,059)</u>
Net change in total pension liability	9,129,632	8,694,596
Total Pension Liability, Beginning	<u>195,878,761</u>	<u>187,184,165</u>
Total Pension Liability, Ending (a)	<u>\$ 205,008,393</u>	<u>\$ 195,878,761</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 600,000	\$ 500,000
Employee contributions	4,238,646	3,749,484
Other contributions	-	-
Net investment income	(1,350,579)	10,223,630
Benefits payments, including refunds of member contributions	(10,127,613)	(10,320,059)
Administration	(465,209)	(459,897)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	(7,104,755)	3,693,158
Plan Fiduciary Net Position, Beginning	<u>161,487,164</u>	<u>157,794,006</u>
Plan Fiduciary Net Position, Ending (b)	<u>\$ 154,382,409</u>	<u>\$ 161,487,164</u>
Net pension liability, ending (a) - (b)	<u>\$ 50,625,984</u>	<u>\$ 34,391,597</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>75.31%</u>	<u>82.44%</u>
Covered-employee Payroll	<u>\$ 45,821,177</u>	<u>\$ 46,190,968</u>
Net pension liability as a percentage of covered-employee payroll	<u>110.49%</u>	<u>74.46%</u>

The County implemented GASB Statement No. 68 during its year ended December 31, 2015.
 Information prior to 2014 is not available.

County of Lackawanna, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions
 Year Ended December 31, 2016
 (Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 3,233,618	\$ 2,483,175	\$ 2,478,622	\$ 4,139,516	\$ 4,089,804	\$ 3,967,756	\$ 4,801,039	\$ 3,712,594	\$ 1,707,660	\$ 2,099,854	\$ 2,317,365
Contributions in relation to the actuarially determined contribution	<u>600,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>65,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,856,077</u>
Contribution deficiency (excess)	<u>\$ 2,633,618</u>	<u>\$ 1,983,175</u>	<u>\$ 1,978,622</u>	<u>\$ 3,639,516</u>	<u>\$ 3,589,804</u>	<u>\$ 3,967,756</u>	<u>\$ 4,735,306</u>	<u>\$ 3,712,594</u>	<u>\$ 1,707,660</u>	<u>\$ 2,099,854</u>	<u>\$ (538,712)</u>
Covered-employee payroll	\$ 49,952,306	\$ 46,190,968									
Contributions as a percentage of covered-employee payroll	1.20%	1.08%									

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	21 years
Asset valuation method	Fair-Market Value
Inflation	3.0%
Salary increases	4.5%
Investment rate of return	7.5
Retirement age	Age 60 or 55 with 20 years of service
Mortality	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

The County implemented GASB Statement No. 68 during its year ended December 31, 2015. Certain information is not available prior to 2015.