BASIC FINANCIAL STATEMENTS

COUNTY OF LACKAWANNA, PENNSYLVANIA

DECEMBER 31, 2009

COUNTY OF LACKAWANNA, PENNSYLVANIA

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Independent Auditors' Report

To The Commissioners
County of Lackawanna, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, business type activities, 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, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Area Agency on Aging ("LCAAA", a Special Revenue Fund), Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA", a blended component unit), Lackawanna Day Care and Child Development Program ("LDCCDP", a Special Revenue Fund), Lackawanna County Children and Youth Services Program ("LCCYSP", a Special Revenue Fund), Pension Trust Fund and the following entities collectively referred to as "Component Units": the 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, and the Lackawanna County Performing Arts Center Authority, which represent the foregoing percentages of the total assets, net assets/fund balance, and total revenues as follows:

	Total Assets	Net Assets/ Fund Balance	Total Revenues
Government-wide:			
Governmental activities -			
LCAAA	.33%	.03%	5%
LCCDAA	.18%	.50%	2%
LDCCDP	.63%	.15%	6%
LCCYSP	3%	2%	9%
Component units	100%	100%	100%
Fund statements:			
Fiduciary Pension Trust Fund	98%	100%	100%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities is based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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 business-type activities, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note C, the accompanying government-wide financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2011 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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To The Commissioners
County of Lackawanna, Pennsylvania

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 4 through 16 and 67 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Asher & Company, Ltd.

ASHER & COMPANY, Ltd.

July 21, 2011

COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2009

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, 2009 compared to the year ended December 31, 2008. 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 $81,105,340 at December 31, 2009.

General Fund expenses exceeded revenues in 2009. This reduced the General Fund balance from $1,539,663 at December 31, 2008 to a deficit of ($9,504,308) at December 31, 2009.

The County has been profoundly impacted by the global recession. County taxpayers are suffering from the Global economic stagnation. The County Commissioners, while recognizing that the County's operations are in a deficit position, have committed to try to stabilize the County's finances without placing undue burden on County taxpayers.

Rather than raising taxes, the Commissioners have attempted to attack the County deficits through responsible management of expenses, while continuing to provide essential services to the residents of Lackawanna County. During 2008, the Commissioners undertook a Governmental reorganization in order to more efficiently manage all of the diverse departments within Lackawanna County government. The reorganization resulted in a net decrease of approximately 35 positions and streamlined the lines of communication between County personnel and upper management.

During 2008 and 2009 the County reduced the workforce in an attempt to control annual expenditures. The County has also implemented cost savings plans related to County employee travel and county purchasing services.

During 2009 the County has continued to pursue conservative measures related to its debt service, with an eye toward limiting SWAP and variable rate exposure.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements consist of the statement of net assets and the statement of activities. The statement of net assets reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

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 17-18 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.

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 the governmental funds that are not considered individually significant and have been aggregated and 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, Debt Service and Liquid Fuels Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 67.

The basic fund financial statements can be found on pages 19-26 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 27-28 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 31-66 of this report.

COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2009

CONDENSED STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Current and Other Assets	$ 48,271,847	$ 62,047,200
Capital Assets	118,904,692	118,019,659
Total Assets	$167,176,539	$180,066,859
LIABILITIES AND NET DEFICIT		
Current Liabilities	$ 32,190,834	$ 32,012,548
Long Term and Other Liabilities	216,091,045	217,202,468
Total Liabilities	$248,281,879	$249,215,016
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	$ (57,679,024)	$ (57,755,320)
Restricted	2,279,416	6,109,184
Unrestricted	(25,705,732)	(17,502,021)
Total Net Deficit	$ (81,105,340)	$ (69,148,147)

Total Assets of the Lackawanna County primary government decreased by $12,890,320 from 2008 to 2009. This was primarily due to the expending of Capital Funds previously borrowed for the County Courthouse and other County Capital Projects, i.e. (Cash held for capital projects on the 2008 statements was $15,452,987, cash held for capital projects on the 2009 statements was $499,163).

The County's Total Liabilities decreased by $933,137 in 2009. This was due primarily to the decrease in net bonds and notes payable of $2,576,924, an increase of $3,337,504 in total pension obligations and a decrease of $1,004,845 in current accounts payable.

COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2009

CONDENSED STATEMENT OF GOVERNMENTAL ACTIVITIES
YEARS ENDED DECEMBER 31, 2009 AND 2008

GOVERNMENTAL ACTIVITIES	2009	2008
PROGRAM REVENUES:		
CHARGES FOR SERVICES	$ 45,771,820	$ 53,437,520
OPERATING GRANTS & CONTRIBUTIONS	49,135,584	44,188,715
CAPITAL GRANTS & CONTRIBUTIONS	5,758,190	3,726,595
GENERAL REVENUES:		
TAX LEVY FOR GENERAL PURPOSES, NET	56,906,684	52,063,696
CONTRIBUTIONS & OTHER	585,581	2,198,380
TOTAL REVENUES	158,157,859	155,614,906
EXPENSES:		
GENERAL GOVERNMENT - ADMINISTRATIVE	22,446,385	24,861,604
GENERAL GOVERNMENT - JUDICIAL	19,160,578	19,134,571
CORRECTIONS	31,375,340	31,632,732
PUBLIC WORKS AND ENTERPRISES	3,276,396	11,659,208
HUMAN SERVICES	63,838,493	61,323,707
CULTURE AND RECREATION	6,579,658	4,430,013
CONSERVATION AND DEVELOPMENT	3,032,365	3,017,659
OTHER	-	-
DEPRECIATION	4,645,380	5,901,148
INTEREST – LONG TERM DEBT	11,811,096	9,953,152
TOTAL EXPENSES	166,165,691	171,913,794
CHANGES IN NET ASSETS	(8,007,832)	(16,298,888)
NET DEFICIT, BEGINNING	(69,148,157)	(52,849,269)
PRIOR PERIOD ADJUSTMENT *	(3,949,351)	-
NET DEFICIT, ENDING	$ (81,105,340)	$ (69,148,157)

* During 2009, it was determined that depreciation expense on certain capital assets on the government-wide financial statements was understated by approximately $3,949,000 for years prior to 2009.

FINANCIAL ANALYSIS OF THE FUNDS
GENERAL FUND (MAJOR FUND)

The following represents a summary of General Fund revenue, by source, along with changes from 2008.

	2009 Amount	2008 Amount	Increase (Decrease)	% Change
TAXES	$55,327,413	$52,694,199	$2,633,214	5.0%
INTERGOVERNMENTAL	20,192,231	21,603,564	(1,411,333)	(6.5)
CHARGES FOR SERVICE	15,035,312	16,236,053	(1,200,741)	(7.4)
OTHER	327,657	853,210	(525,553)	(61.6)
TRANSFERS IN	179,573	-	179,573	-
TOTAL REVENUE	$91,062,186	$91,387,026	$ (324,840)	(0.36)%

Total revenue in the General Fund decreased by $324,840 or less than 1% from 2008 to 2009. Increases in tax revenue were primarily attributable to an increase in the County's assessed value and an increase in collections of prior years delinquent taxes in 2009. Decreases in Intergovernmental revenues were due primarily to a decrease of $780,000 in Children and Youth reimbursement related to decreases in expenditures. Decreases in Charges for Services are due primarily to a decrease of approximately $800,000 in reimbursements for housing federal prisoners at the Lackawanna County facility.

COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2009

GENERAL FUND (MAJOR FUND)

The following represents a summary of General Fund expenditures, by function, along with changes from 2008.

	2009 Amount	2008 Amount	Increase (Decrease)	% Change
GENERAL GOVERNMENT – ADMINISTRATIVE	$20,301,363	$17,900,597	$2,400,766	13.4%
GENERAL GOVERNMENT – JUDICIAL	16,625,075	16,609,353	15,722	.1
PUBLIC SAFETY - CORRECTIONS	26,134,957	25,541,263	593,694	2.3
PUBLIC WORKS	107,580	243,639	(136,059)	(55.8)
HEALTH AND HUMAN SERVICES	17,152,140	17,592,405	(440,265)	(2.5)
CULTURE AND RECREATION	2,090,900	2,280,630	(189,730)	(8.3)
COMMUNITY AND ECONOMIC DEVELOPMENT	631,422	594,985	36,437	6.1
MISCELLANEOUS	888,524	806,199	82,325	10.2
TRANSFERS	18,174,196	11,765,671	6,408,525	54.4
TOTAL	$102,106,157	$93,334,742	$8,771,415	(9.4)%

Total expenses in the General Fund increased by $8,771,415. The increase was due primarily to an approximately $2,000,000 increase in pension liability and an increase of approximately $6,400,000 in transfers out.

The increase in transfers resulted from an increase in debt service payments in 2009 of approximately $3,000,000. In addition, transfers include subsidies of emergency services and domestic relations in 2009 which weren't included in transfers in 2008.

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 the County Nursing Home, Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund reflected only nominal increases in both revenues and expenditures for 2009. With the exception of the County Nursing Home, the other social services included within this fund are funded predominantly by subsidies from the Federal and State governments.

The County Nursing Home is also subjected to reimbursements to a large extent from both the Federal and State governments. Due to continuing deficits at the County Nursing Homes, as well as, ongoing liability concerns, during 2009 the County Commissioners engaged a broker in order to attempt to sell the Nursing Home to a private owner. In September 2009, the County accepted a letter of intent from a private entity to purchase the Nursing Home for $13,400,000. In March 2010, the County and the private entity closed on an Asset Purchase Agreement, which enabled the County to get out of the Nursing Home business, and thereby reduce any risk of future losses. The net proceeds from the sale amounted to approximately $10,320,000. Approximately $5,100,000 was used to subsidize the General Fund, and the remainder was dedicated to funding County capital projects.

Total revenues in 2009 were $44,938,453 versus $43,775,080 in 2008 or an increase of $1,163,373 or 2.7%.

Total expenditures in 2009 were $45,365,352 versus $43,289,458 in 2008 for an increase of $2,075,894 or 4.8%.

This resulted in an increase in the deficit fund balance from ($442,409) at December 31, 2008 to ($869,308) at December 31, 2009.

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.

CAPITAL PROJECTS FUND (MAJOR FUND)

The County issued $13,858,652 (Series D of 2008) of zero coupon general obligation notes and $17,960,000 (Series E of 2008) of general obligation bonds. A portion of these issues ($15,300,000) were used to fund County Capital Projects. The fund balance in the Capital Projects Fund decreased in 2009 by $2,365,186 from $14,943,729 in 2008 to $12,578,543.

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, which requires that the County maintain an irrevocable trust account for the payment of future benefits. The fund's total assets at December 31, 2009 were $1,276,379.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of ($1,141,166) as of December 31, 2009. This is a decrease of $295,360 in the fund deficit of ($1,436,526) reported at December 31, 2008.

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 assets of $21,635,678 during 2009 resulting in Plan assets of $122,657,498 at December 31, 2009. Plan assets were at $101,021,754 at December 31, 2008

Plan contributions by members amounted to $4,449,445 and $4,302,926 in 2009 and 2008, respectively. Benefits paid to retired members were $5,634,539 and $5,609,603 in 2009 and 2008 respectively.

COUNTY OF LACAKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2009

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 $2,165,114 in that role as of December 31, 2009.

CAPITAL ASSETS

The County investment in Capital Assets at December 31, 2009 is summarized below:

Capital asset activity for governmental activities for the year ended December 31, 2009 was as follows:

	January 1,2009 (Restated)	Additions	Deletions	Transfers	December 31, 2009
Capital assets not being depreciated:					
Land	$ 3,531,702	$ -	$ -	$ -	$ 3,531,702
Construction-in-progress	39,731,934	2,045,111	-	(39,755,094)	2,021,951
Total capital assets, not being depreciated	43,263,636	2,045,111	-	(39,755,094)	5,553,653
Capital assets being depreciated:					
Buildings and improvements	77,341,509	2,112,521	-	39,755,094	119,209,124
Machinery and equipment	32,433,168	3,635,316	-	-	36,068,484
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	33,632,617	1,686,818	-	-	35,319,435
Investment in airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	153,558,186	7,434,655	-	39,755,094	200,747,935
Less accumulated depreciation for:					
Buildings and improvements	(21,995,407)	(2,531,856)	-	-	(24,527,263)
Machinery and equipment	(27,206,279)	(1,627,059)	-	-	(28,833,338)
Equipment under capital lease	(271,720)	(131,044)	-	-	(402,764)
Infrastructure	(28,382,950)	(194,195)	-	-	(28,577,145)
Investment in airport	(4,895,159)	(161,227)	-	-	(5,056,386)
Total accumulated depreciation	(82,751,515)	(4,645,381)	-	-	(87,396,896)
Total capital assets being depreciated, net	70,806,671	2,789,274	-	39,755,094	113,351,039
Governmental activities capital assets, net	$114,070,307	$4,834,385	$ -	$ -	$118,904,692

CAPITAL ASSETS (Continued)

At December 31, 2009, the County has committed to various ongoing construction projects. Total cost related to these projects amount to approximately $2,022,000 which is included in construction-in-progress at December 31, 2009. The County is committed to additional costs of approximately $2,100,000 related to these projects.

LONG TERM DEBT

As of December 31, 2009, the County net general obligation debt was $209,857,360 net of related discount. This amount represents approximately 51% of the legal limit as calculated in 2009.

ECONOMIC CONDITION AND OUTLOOK

The County, during 2009, continued to closely monitor its debt portfolio. In 2009 the County restructured additional debt to take advantage of a favorable interest rate environment and further limit the County's variable rate exposure and exposure to derivative instruments.

The administration continues to streamline County government including reducing its work force without cutting services to the taxpayers, innovative energy savings, technological innovations, restructuring purchasing policies, as well as, implementing new vehicle and travel policies.

The County completed the sale of its nursing home in 2010 for a selling price of $13,400,000. This nursing home continues to provide services to the citizens of Lackawanna County under private ownership.

The County is also in the process of negotiating the sale of the baseball franchise owned by the Multi Purpose Stadium Authority of Lackawanna County as part of a larger project to renovate the Authority's Stadium and provide a long term tenant for the facility.

While the County understands that these are one time revenue sources, the administration is committed to doing everything in its power to reduce the burden on County taxpayers during these trying economic times.

The County will continue to review operations and look for methods to streamline both the county processes as well as those of component units to better serve the taxpayers while attempting to mitigate the financial burden placed on those taxpayers.

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 ASSETS
DECEMBER 31, 2009

	PRIMARY GOVERNMENT	COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	GOVERNMENTAL
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,242,439	$ 14,047,544
Restricted cash	-	7,147,741
Investments	-	1,761,348
Restricted investments	4,378,561	19,372,997
Accounts receivable, net	5,563,435	155,278,207
Inventory	46,065	-
Due from other governments, net	10,393,243	1,821,724
Taxes receivable, net	8,533,383	526,300
Other current assets	131,214	636,310
Total current assets	39,288,340	200,592,171
CAPITAL ASSETS, NET	118,904,692	63,195,555
CASH HELD FOR CAPITAL PROJECTS	499,163	-
OTHER NONCURRENT ASSETS	-	1,771,193
DEFERRED CHARGES	8,484,344	-
Total assets	167,176,539	265,558,919
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	15,994,072	1,790,858
Accrued expenses	3,736,356	1,219,624
Current portion:		
Bonds and notes payable	4,535,000	2,692,535
Capital lease obligation	150,115	-
Compensated absences	470,673	469,725
Net pension obligation	3,712,594	-
Due to component units	1,110,443	-
Due to primary government	-	13,845,331
Deferred revenues	64,036	1,750,840
Escrow liability	-	19,455,536
Claims payable	2,417,545	-
Other liabilities	-	63,533
Total current liabilities	32,190,834	41,287,982
NONCURRENT LIABILITIES		
Bonds and notes payable, net	205,322,360	18,386,022
Capital lease obligation, net of current portion	785,090	-
Nonrecourse debt issues	-	153,336,682
Net pension obligation, net of current portion	7,574,471	-
Compensated absences, net of current portion	2,409,124	732,707
Total liabilities	248,281,879	213,743,393
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt	(57,679,024)	49,954,547
Restricted	2,279,416	8,815,258
Unrestricted	(25,705,732)	(6,954,279)
Total net assets	$ (81,105,340)	$ 51,815,526

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUE: CHARGES FOR SERVICES	PROGRAM REVENUE: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUE: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: COMPONENT UNITS
PRIMARY GOVERNMENT						
Governmental activities						
General government - administrative	$ (22,446,385)	$ 3,559,095	$ 852,478		$ (18,034,812)	
General government - judicial	(19,160,578)	5,619,060	6,675,696		(6,865,822)	
Public safety and corrections	(31,375,340)	8,546,092	316,814		(22,512,434)	
Public works and enterprises	(3,276,396)	2,002,498	3,664,255	$ 5,426,079	7,816,436	
Health and human services	(63,838,493)	23,641,991	37,213,776	332,111	(2,650,615)	
Culture and recreation	(6,579,658)	2,211,516	-	-	(4,368,142)	
Community and economic development	(3,032,365)	191,568	412,565	-	(2,428,232)	
Unallocated depreciation	(4,645,380)	-	-	-	(4,645,380)	
Interest on long-term debt	(11,811,096)	-	-	-	(11,811,096)	
Total primary government	$ (166,165,691)	$ 45,771,820	$ 49,135,584	$ 5,758,190	(65,500,097)	
GOVERNMENTAL COMPONENT UNITS						
Scranton Lackawanna Health and Welfare Authority	$ (15,660,547)	$ 75,451				$ (15,585,096)
Lackawanna County Library System	(5,406,306)	250,000	$ 1,407,396			(3,748,910)
Lackawanna County Redevelopment Authority	(1,283,828)	-	1,079,850			(203,978)
Lackawanna County River Basin Sewer Authority	(6,703,516)	7,327,109	-	$ 1,574,104		2,197,697
County of Lackawanna Transit System Authority	(7,875,374)	1,014,424	7,220,512	698,122		1,057,684
Multi-Purpose Stadium Authority of Lackawanna County	(1,393,264)	125,000	-	-		(1,268,264)
Lackawanna County Performing Arts Center Authority	(906,296)	1,101,301	-	-		195,005
Total governmental component units	$ (39,229,131)	$ 9,893,285	$ 9,707,758	$ 2,272,226		(17,355,862)
General revenues and transfers						
Taxes levied for general purposes					56,906,684	3,977,567
Rental income					-	15,272,892
Interest revenue					338,766	689,040
Contributions and other revenue					246,815	837,152
Total general revenues and transfers					57,492,265	20,776,651
Change in net assets					(8,007,832)	3,420,789
Net assets (deficit), beginning as previously reported					(69,148,157)	48,844,195
Prior-period adjustment (See Note C)					(3,949,351)	(449,458)
Net assets (deficit), beginning as restated					(73,097,508)	48,394,737
Net assets (deficit), ending					$ (81,105,340)	$ 51,815,526

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	GENERAL FUND	HEALTH AND HUMAN SERVICES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUNDS	TOTAL
ASSETS						
Cash and cash equivalents	$ 4,594,034	$ 1,514,605	$ 2,055,293	$ 499,163	$ 2,073,365	$ 10,736,460
Accounts receivable	2,030,064	2,308,082	-	-	1,225,289	5,563,435
Investments	-	-	-	3,238,538	-	3,238,538
Inventory	-	-	-	-	46,065	46,065
Due from other funds	606,034	-	210,425	10,731,669	1,871,140	13,419,268
Due from other governments, net	8,497,314	580,085	275,175	1,050,000	-	10,402,574
Taxes receivable, net	8,533,383	-	-	-	-	8,533,383
Total assets	$24,260,829	$ 4,402,772	$ 2,540,893	$15,519,370	$ 5,215,859	$ 51,939,723
LIABILITIES AND FUND BALANCES (DEFICIT)						
LIABILITIES						
Accounts payable	$ 7,997,622	$ 4,063,436	$ 72,515	$ 2,365,846	$ 1,494,654	$ 15,994,073
Accrued liabilities	3,985,689	-	-	-	-	3,985,689
Accrued wages payable	1,210,538	326,121	-	-	116,992	1,653,651
Due to other funds	11,721,093	818,487	-	574,981	304,707	13,419,268
Due to component units	959,661	-	-	-	150,782	1,110,443
Due to other governments	-	-	9,331	-	-	9,331
Deferred revenue	7,890,534	64,036	-	-	-	7,954,570
Total liabilities	33,765,137	5,272,080	81,846	2,940,827	2,067,135	44,127,025
FUND BALANCES (DEFICIT)						
Unreserved	(9,504,308)	(869,308)	-	-	319,799	(10,053,817)
Reserved	-	-	2,459,047	12,578,543	2,828,925	17,866,515
Total fund balances (deficit)	(9,504,308)	(869,308)	2,459,047	12,578,543	3,148,724	7,812,698
Total liabilities and fund balances (deficit)	$24,260,829	$ 4,402,772	$ 2,540,893	$15,519,370	$ 5,215,859	$ 51,939,723

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS DECEMBER 31, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 7,812,698
Amounts reported for governmental activities in the statement of net assets are different because:		
Net (deficit) of the Internal Service Fund are included in governmental activities since they primarily benefit the County's governmental activities.		(1,141,166)
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in the governmental funds.		118,904,692
Deferred revenue in the governmental funds balance sheet includes amounts not available to pay the current period's expenditures and were not considered a current resource.		7,890,534
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.		8,484,344
Bond refunding costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.		2,832,919
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	$ (212,690,279)	
Net pension obligation	(7,574,471)	
Capital lease obligation	(935,205)	
Compensated absences	(2,879,797)	
		(224,079,752)
Accrued interest payable is included in the statement of net assets.		(1,809,609)
TOTAL DEFICIT - GOVERNMENTAL ACTIVITIES		$ (81,105,340)

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	MAJOR FUNDS					
	GENERAL FUND	HEALTH AND HUMAN SERVICES FUNDS	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	$ 55,327,413					$ 55,327,413
Payments in lieu of taxes	246,815					246,815
Intergovernmental	20,192,231	$ 21,754,793		$ 4,076,554	$ 7,419,450	53,443,028
Charges for service	15,035,312	23,165,098		-	6,672,749	44,873,159
Court costs, fines and forfeitures	66,023	-		-	-	66,023
Interest and rent	14,819	18,562	$ 5,745	223,308	30,010	292,444
Contributions and other	-	-	-	69,068	624,133	693,201
Total revenues	90,882,613	44,938,453	5,745	4,368,930	14,746,342	154,942,083
EXPENDITURES						
Current						
General government- administrative	20,301,363	-	5,953,538	246,433	26,270	26,527,604
General government - judicial	16,625,075	-	-	-	2,753,490	19,378,565
Public safety and corrections	26,134,957	-	-	-	5,120,848	31,255,805
Public works and enterprises	107,580	-	-	12,103	2,991,243	3,110,926
Health and human services	17,152,140	45,365,352	-	-	319,670	62,837,162
Culture and recreation	2,090,900	-	-	-	2,486,702	4,577,602
Community and economic development	631,422	-	-	-	2,132,926	2,764,348
Miscellaneous expenses	888,524	-	-	-	58,385	946,909
Debt service	-	-	17,594,319	-	-	17,594,319
Capital outlay	-	-	-	11,407,417	-	11,407,417
Total expenditures	83,931,961	45,365,352	23,547,857	11,665,953	15,889,534	180,400,657
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,950,652	(426,899)	(23,542,112)	(7,297,023)	(1,143,192)	(25,458,574)
OTHER FINANCING SOURCES (USES)						
Payments to refunded bond escrow agent	-	-	(24,338,397)	-	-	(24,338,397)
Bond proceeds of refunding bonds	-	-	33,870,000	-	-	33,870,000
Discount on bond issue	-	-	(825,187)	-	-	(825,187)
Transfers in	179,573	-	15,142,521	4,953,782	2,847,148	23,123,024
Transfers out	(18,174,196)	-	(4,585)	(21,945)	(5,106,825)	(23,307,551)
Total other financing sources (uses)	(17,994,623)	-	23,844,352	4,931,837	(2,259,677)	8,521,889
CHANGE IN FUND BALANCE	(11,043,971)	(426,899)	302,240	(2,365,186)	(3,402,869)	(16,936,685)
FUND BALANCES, BEGINNING	1,539,663	(442,409)	2,156,807	14,943,729	6,551,593	24,749,383
FUND BALANCES, ENDING	$ (9,504,308)	$ (869,308)	$ 2,459,047	$ 12,578,543	$ 3,148,724	$ 7,812,698

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$ (16,936,685)
Amounts reported for governmental activities in the statement of activities are different because:	
Net income of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.	295,360
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	9,479,765
Depreciation expense on capital assets is reported in the statement of activities.	(4,645,380)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in revenue accrued between the prior and current year.	1,579,271
Proceeds from the issuance of bonds payable are considered current financial resources and reported as revenue in the funds but not the statement of activities.	(33,870,000)
Repayment of bonds payable and capital lease obligations uses current financial resources and is reported as an expenditure in the funds but not the statement of activities.	32,463,277
Bond issue costs are reported as an expenditure in the governmental funds, and therefore reduces fund balance because current financial resources have been used. These payments are not an expense in the statement of activities.	1,960,318

- Continued -

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Discount on bond issue is reported as an expenditure and an other financing use in the governmental funds, and therefore reduces fund balance because current financial resources have been used. These payments are not an expense in the statement of activities.	825,187
Governmental funds report outlays for premiums on bond issuance and deferred refunding charges as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the term of the debt associated with these deferred charges.	2,611,113
Amortization of deferred refunding charges and write-offs of bond issue costs are reported in the statement of activities as expenses, but not as a change in fund balance of the governmental funds.	(742,140)
The pension obligation is reported as an expense in the statement of activities of the government-wide statement, but is not reported as expenditures in the governmental funds. This represents the current year net change.	(1,332,570)
Accrued interest on bonds is an expenditure in the statement of activities of the government-wide statement, but is not reported as expenditures in governmental funds. This represents the current year change.	(89,068)
Compensated absenses are reported in the statement of activities, but do not require the use of current financial resources and, therefore, these are not reported as expenditures in governmental funds. This represents the current year change.	393,720
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (8,007,832)

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2009

	INTERNAL SERVICE FUND
ASSETS	
Current assets	
Cash and cash equivalents	$ 5,142
Prepaid asset	131,214
Investments	1,140,023
Total assets	1,276,379
LIABILITIES	
LIABILITIES	
Current liabilities	
Claims payable	2,417,545
Total liabilities	2,417,545
NET ASSETS	
NET ASSETS	
Unrestricted	$ (1,141,166)

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	INTERNAL SERVICE FUND
OPERATING REVENUES	
Charges for services	$ 910,000
OPERATING EXPENSES	
Workers' compensation claims	709,346
Administrative	116,740
Total operating expenses	826,086
NET OPERATING REVENUE	83,914
NON-OPERATING REVENUES	
Interest income	26,919
Transfers in	184,527
Total non-operating revenues	211,446
CHANGE IN NET ASSETS	295,360
NET ASSETS, BEGINNING	(1,436,526)
NET ASSETS, ENDING	$(1,141,166)

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
DECEMBER 31, 2009

	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	$ 910,000
Cash payments for goods and services	(317,870)
Cash payments for insurance claims	(876,320)
Net cash utilized by operating activities	(284,190)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received for interest	26,919
Purchase of investments	(24,625)
Transfers in	184,527
Net cash provided by investing activities	186,821
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,369)
CASH AND CASH EQUIVALENTS, BEGINNING	102,511
CASH AND CASH EQUIVALENTS, ENDING	$ 5,142
RECONCILIATION OF CHANGE IN NET OPERATING REVENUE TO NET CASH UTILIZED BY OPERATING ACTIVITIES	
Net operating revenue	$ 83,914
Adjustments to reconcile operating revenue to net cash utilized by operating activities:	
Increase or decrease in:	
Prepaid asset	(131,214)
Due to other funds	(69,916)
Claims payable	(166,974)
Net cash utilized by operating activities	$ (284,190)

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2009

	PENSION TRUST FUND	AGENCY FUND	TOTAL
ASSETS			
Cash and cash equivalents	$ 466,992	$ 2,165,114	$ 2,632,106
Accrued interest	645,341	-	645,341
Investments, at fair value			
Federated money market funds	1,572,318	-	1,572,318
U.S. government securities	29,459,312	-	29,459,312
Corporate bonds	14,211,123	-	14,211,123
Notes and mortgages	4,003,929	-	4,003,929
Common stocks	60,057,490	-	60,057,490
Mutual funds	12,240,993	-	12,240,993
Total investments	121,545,165	-	121,545,165
Total assets	$ 122,657,498	$ 2,165,114	$ 124,822,612
LIABILITIES			
LIABILITIES			
Escrow liabilities	$ -	$ 2,165,114	$ 2,165,114
NET ASSETS			
NET ASSETS			
Held in trust for pension benefits	$ 122,657,498	$ -	$ 122,657,498

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	PENSION TRUST FUND
ADDITIONS	
Contributions from plan members	$ 4,499,445
INVESTMENT INCOME (EXPENSE)	
Net appreciation in fair value of investments	19,579,569
Interest	2,008,816
Dividends	1,586,055
Investment expense	(57,846)
Net investment earnings	23,116,594
Total additions	27,616,039
DEDUCTIONS	
Benefits paid	5,634,539
Administrative expenses	345,756
Total deductions	5,980,295
INCREASE IN NET ASSETS	21,635,744
NET ASSETS, BEGINNING	101,021,754
NET ASSETS, ENDING	$ 122,657,498

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

COMBINING STATEMENT OF NET ASSETS -
DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS
DECEMBER 31, 2009

	SCRANTON LACKAWANNA HEALTH AND WELFARE AUTHORITY	LACKAWANNA COUNTY LIBRARY SYSTEM	LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY	LACKAWANNA COUNTY RIVER BASIN SEWER AUTHORITY	COUNTY OF LACKAWANNA TRANSIT SYSTEM AUTHORITY	MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY	LACKAWANNA COUNTY PERFORMING ARTS CENTER AUTHORITY	TOTALS
CURRENT ASSETS								
Cash and cash equivalents		$ 475,967	$ 24,087	$ 6,058,149	$ 1,475,999	$ 5,676,911	$ 336,431	$ 14,047,544
Restricted cash	$ 36,854	-	-	160,227	6,950,474	-	186	7,147,741
Investments	1,360,614	400,734	-	-	-	-	-	1,761,348
Restricted investments	18,059,827	-	-	1,313,170	-	-	-	19,372,997
Due from other governments	-	-	-	-	1,821,724	-	-	1,821,724
Other receivables	153,336,682	20,159	18,824	1,586,952	70,615	244,975	-	155,278,207
Taxes receivable, net	-	350,415	175,885	-	-	-	-	526,300
Other current assets	-	458,669	-	101,600	72,708	3,333	-	636,310
Total current assets	172,793,977	1,705,944	218,796	9,220,098	10,391,520	5,925,219	336,617	200,592,171
CAPITAL ASSETS NOT BEING DEPRECIATED	-	50,000	-	8,244,361	1,549,981	-	-	9,844,342
CAPITAL ASSETS, net	13	989,379	-	20,994,308	5,816,033	18,121,143	7,430,337	53,351,213
OTHER ASSETS	-	-	-	561,723	-	1,209,470	-	1,771,193
Total assets	$ 172,793,990	$ 2,745,323	$ 218,796	$ 39,020,490	$ 17,757,534	$ 25,255,832	$ 7,766,954	$ 265,558,919
LIABILITIES								
Current liabilities								
Accounts payable		$ 34,155		$ 350,953	$ 1,290,332	$ 103,220	$ 12,198	$ 1,790,858
Accrued expenses	$ 1,759	-		-	1,024,360	56,360	137,145	1,219,624
Current portion of long-term debt	-	-	$ 1,650,000	647,535	-	-	395,000	2,692,535
Current portion of compensated absences	-	-	-	139,154	330,571	-	-	469,725
Due to primary government	-	-	8,000	-	-	13,412,156	425,175	13,845,331
Deferred revenue	-	1,417,508	-	-	-	-	333,332	1,750,840
Escrow liability	19,455,536	-	-	-	-	-	-	19,455,536
Other liabilities	-	50,583	-	-	-	12,950	-	63,533
Total current liabilities	19,457,295	1,502,246	1,658,000	1,137,642	2,645,263	13,584,686	1,302,850	41,287,982
LONG-TERM DEBT, net	-	-	1,633,777	4,784,356	-	6,590,000	5,377,889	18,386,022
COMPENSATED ABSENCES, net	-	-	-	249,273	483,434	-	-	732,707
NONRECOURSE DEBT ISSUES	153,336,682	-	-	-	-	-	-	153,336,682
Total liabilities	172,793,977	1,502,246	3,291,777	6,171,271	3,128,697	20,174,686	6,680,739	213,743,393
NET ASSETS (DEFICIT)								
Invested in capital assets, net of related debt	13	1,039,379	-	23,806,778	7,366,014	16,084,915	1,657,448	49,954,547
Restricted	-	391,200	-	1,473,397	6,950,475	-	186	8,815,258
Unrestricted	-	(187,502)	(3,072,981)	7,569,044	312,348	(11,003,769)	(571,419)	(6,954,279)
Total net assets (deficit)	$ 13	$ 1,243,077	$ (3,072,981)	$ 32,849,219	$ 14,628,837	$ 5,081,146	$ 1,086,215	$ 51,815,526

The accompanying notes are an integral part of these financial statements.

COUNTY OF LACKAWANNA, PENNSYLVANIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2009

	SCRANTON LACKAWANNA HEALTH AND WELFARE AUTHORITY	LACKAWANNA COUNTY LIBRARY SYSTEM	LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY	LACKAWANNA COUNTY RIVER BASIN SEWER AUTHORITY	COUNTY OF LACKAWANNA TRANSIT SYSTEM AUTHORITY	MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY	LACKAWANNA COUNTY PERFORMING ARTS CENTER AUTHORITY	TOTALS
REVENUES								
Charges for services	$ 75,451	$ 250,000		$ 7,327,109	$ 1,014,424	$ 125,000	$ 1,101,301	$ 9,893,285
Real estate taxes	-	3,481,025		-	-	-	-	3,481,025
Tax incremental financing	-	-	$ 496,542	-	-	-	-	496,542
Rental income	15,272,892	-	-	-	-	-	-	15,272,892
Interest income	312,204	3,718	11,571	216,960	138,482	1,225	4,880	689,040
Operating grants and contributions	-	1,407,396	1,079,850	-	7,220,512	-	-	9,707,758
Capital grants and contributions	-	-	-	1,574,104	698,122	-	-	2,272,226
Other	-	26,033	82,072	602,384	126,314	349	-	837,152
Total revenues	15,660,547	5,168,172	1,670,035	9,720,557	9,197,854	126,574	1,106,181	42,649,920
EXPENSES								
Public works and enterprises	-	-	-	6,546,561	7,875,374	-	-	14,421,935
Culture and recreation	-	5,406,306	-	-	-	-	-	5,406,306
Operating expenses	-	-	-	-	-	343,701	499,999	843,700
Community and economic development	-	-	1,053,049	-	-	-	-	1,053,049
Debt service	15,543,734	-	-	156,955	-	-	406,297	16,106,986
Other	116,813	-	230,779	-	-	1,049,563	-	1,397,155
Total expenses	15,660,547	5,406,306	1,283,828	6,703,516	7,875,374	1,393,264	906,296	39,229,131
CHANGE IN NET ASSETS	-	(238,134)	386,207	3,017,041	1,322,480	(1,266,690)	199,885	3,420,789
NET ASSETS (DEFICIT), BEGINNING	13	1,481,211 *	(3,459,188)	29,832,178	13,306,357 *	6,347,836	886,330	48,394,737
NET ASSETS (DEFICIT), ENDING	$ 13	$ 1,243,077	$ (3,072,981)	$ 32,849,219	$ 14,628,837	$ 5,081,146	$ 1,086,215	$ 51,815,526

* Net assets, beginning, as restated

The accompanying notes are an integral part of these financial statements.

NOTE A - 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, public works, 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 B, are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Government-wide financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

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

Fund financial statements

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

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

Property taxes, licenses, and interest income 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. Property tax is recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period or sixty days thereafter. Delinquent property taxes not collected at year-end are included in deferred revenue. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements (Continued)

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

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

The Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation or construction of major capital assets. The Land Fill Trust Fund was reclassified from a nonmajor governmental fund to a Capital Projects Fund during 2009.

The County reports the following nonmajor governmental funds which do not meet the major fund criteria of being considered individually significant:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary data

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and certificates of deposit with an original maturity of three months or less, which are carried at cost.

Investments

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

Taxes receivable

All property tax receivables are shown net of an allowance for uncollectible accounts. The property tax receivable allowance is calculated by management based on collection history and was approximately $7,943,000 at December 31, 2009.

Due from other governments

Due from other governments includes an allowance for doubtful accounts of approximately $5,314,000 at December 31, 2009. The allowance is calculated by management based on collection history.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash held for capital projects

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

Capital assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

The County's assets are capitalized at historical cost or estimated historical cost. County policy has set the capitalization threshold for reporting general capital assets at $5,000. Donations or contributions of capital assets are recorded at fair market value when received.

All capital assets, except land and construction-in-progress, are depreciated. Land is never depreciated. Construction-in-progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins.

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

	Governmental Activities
Infrastructure	20-50 years
Buildings and improvements	25 years
Machinery and equipment	5-20 years
Equipment under capital lease	10 years
Investment in airport	50 years

Bond issue costs

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Non-union County employees are paid for unused sick leave, up to a maximum of 100 days, at retirement. Vacation days generally do not accumulate; however, certain employees may accumulate vacation days.

Derivative financial instrument

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

Self-insurance

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

Fund balance reserves

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets

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

Allocation of indirect expenses

The County does not allocate any indirect expenses.

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.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted net assets - consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations for other governments; or law through constitutional provisions or enabling legislation.

- Unrestricted net assets - all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved could be further split between designated and undesignated. As of December 31, 2009, the County had no designated amount in its unreserved balance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Service Revenue

Net resident service revenue and receivables for the Lackawanna County Health Care Center are reported at estimated net realizable amounts from residents, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to changes in case mix indexes and future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. It is not possible to determine the extent of additional liability (or receivable) resulting from governmental audits conducted in subsequent years. The County has recorded an allowance for doubtful accounts of approximately $797,000 related to its patient service receivables at December 31, 2009 which is included in accounts receivable in the County's Health and Human Services Fund. A summary of the payment arrangements with major third-party payers follows:

- Medicaid - Services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. The County is reimbursed at a rate set by Medicaid based on the facility's prior period costs and the activity levels of the residents.

- Medicare - Services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates per day. The County is reimbursed based on Medicare's resource utilization group pricing.

Laws and regulations governing reimbursement are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE B - REPORTING ENTITY

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

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

NOTE B - REPORTING ENTITY (Continued)

Blended component units

Some component units, despite being legally separate from the County, are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component units reported in this way are:

- The Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA") is responsible for developing and implementing a plan for the prevention and treatment of drug and alcohol abuse in Lackawanna County. The LCCDAA receives funding primarily from the Commonwealth of Pennsylvania. This is blended as part of the Health and Human Services Fund.

- The Lackawanna County Solid Waste Management Authority ("LCSWMA") is responsible for implementing the County's recycling program and operates the County recycling center. This is blended as a Special Revenue Fund, a non-major fund of the County.

- The Lackawanna County Area Agency on Aging ("LCAAA") is responsible for providing services to the elderly pursuant to the provisions of agreements with the Pennsylvania Department of Aging. The LCAAA is principally funded through the Aging Services Block Grant agreements with the Pennsylvania Department of Aging. This is blended as a Special Revenue Fund as part of the Health and Human Services Fund.

- The Lackawanna Day Care and Child Development Program ("LDCCDP") is responsible for providing comprehensive child day care services to children ranging in age from infancy to twelve years old pursuant to the services defined in the Pennsylvania Department of Public Welfare Comprehensive Annual Service Program Plan. The LDCCDP is principally funded through Pennsylvania Department of Public Welfare. This is blended as a Special Revenue Fund as part of the General Fund.

- The Lackawanna County Children and Youth Services Program ("LCCYSP") is responsible for providing comprehensive childcare services to adolescents within Lackawanna County. The LCCYSP is principally funded through Pennsylvania Department of Public Welfare. This is blended as a Special Revenue Fund as part of the Health and Human Services Fund.

NOTE B - REPORTING ENTITY (Continued)

Discretely presented component units

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

- The Scranton Lackawanna Health and Welfare Authority ("SLHWA") acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.

- The Lackawanna County Library System ("LCLS") oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.

- The Lackawanna County Redevelopment Authority ("LCRA") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the LCRA.

- The Lackawanna County River Basin Sewer Authority ("LCRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LCRBSA. The County has also guaranteed approximately $3,250,000 of the long-term debt of the LCRBSA.

- The County of Lackawanna Transit System Authority ("COLTS") operates the County's mass transit system. The County Commissioners appoint the governing board of COLTS. 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, 2009.

- 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 approximately $13,412,000 for which the County has reserved the entire balance.

- The Lackawanna County Performing Arts Center Authority ("LCPACA") operates a performing arts amphitheatre. The County Commissioners appoint the governing board of the LCPACA. The County has also guaranteed the long-term debt of the LCPACA. The long-term debt outstanding at December 31, 2009 was approximately $5,790,000.

NOTE B - REPORTING ENTITY (Continued)

Related organizations

Organizations for which the County is not financially accountable even though the County appoints a voting majority of the organization's governing board are:

- Lackawanna County Housing Authority
- Lackawanna County Industrial Development Authority
- Lackawanna Heritage Valley Authority
- Northeast Pennsylvania Convention and Visitors Bureau

Joint ventures

The County is a participant with other counties in joint ventures that provide services to the constituents of all the participants. The County is a participant in the following joint ventures:

- Wilkes-Barre/Scranton International Airport ("Airport"). A joint venture with the County of Luzerne, the County Commissioners of each county serve as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2009, the County did not provide operating capital to the airport. In 2004, the County loaned the Airport $900,000 for completion of the new terminal, which is still outstanding at December 31, 2009. This loan does not have a stated interest rate and does not contain repayment terms. The County has included a net investment in Airport of approximately $3,671,000 in capital assets at December 31, 2009.

- Lackawanna Susquehanna Mental Health / Mental Retardation Program. A joint venture with the County of Susquehanna, the Commissioners of each county appoint members of the governing board. The County has no equity interest in this joint venture but does provide an annual match of funds. The Commonwealth of Pennsylvania primarily funds the joint venture. Approximately $519,400 was provided in 2009.

All separately published audit reports of the component units, related organizations and joint ventures are available for public inspection in the Office of the County Commissioners.

NOTE C - RESTATEMENT

During 2009, the County determined that it had understated its estimate of depreciation expense on certain capital assets in the government-wide financial statements for years prior to 2009. As a result of this adjustment, the County's net deficit invested in capital assets, net of related debt increased by approximately $3,949,000 and the capital assets, net decreased by approximately $3,949,000 as of January 1, 2009. There was no effect on the 2009 change in net assets. The 2008 change in net assets decreased by approximately $46,000.

The net asset balances of two Component Units, LCLS and COLTS, included in the County's financial statements at December 31, 2008 were $2,305,451 and $13,249,879, respectively. The beginning balances of those Component Units' net assets at January 1, 2009 were $1,481,211 and $13,306,357. As such, the difference of $449,458 is reflected in the County's 2009 financial statements as a prior period adjustment in order to correct the error.

NOTE D - 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;

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania which are insured by the FDIC or other like insurer. For any amounts in excess of the insured maximum, such deposits must be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities;

- Commercial paper and prime commercial paper meeting certain requirements.

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

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, 2009, the bank balance of the County's deposits with financial statements, including cash equivalents, was approximately $11,577,000. Approximately $9,805,000 of the County's deposits were exposed to custodial credit risk and was uninsured. In accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended, such funds are collateralized by securities pledged by the financial institutions.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Investments

As of December 31, 2009 the County's investments are classified as restricted investments. Federated money market funds are carried at cost which approximates fair value at December 31, 2009. Investments are carried at fair market value and consist of the following:

GOVERNMENTAL FUNDS	MATURITIES	FAIR VALUE
U.S. governmental agency	1-10 years	$4,024,468
Federated money market funds		354,093
Total		$4,378,561

PENSION TRUST FUND	MATURITIES	FAIR VALUE
Domestic common stock		$ 59,135,607
U.S. government obligations	6-30 years	29,459,312
Mutual funds		371,888
Corporate bonds	1-30 years	14,211,123
Foreign common stock		921,883
Federated money market funds		1,572,318
Notes and mortgages	6-30 years	4,003,929
UAM McKee International Equity		11,869,105
Total		$121,545,165

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, 2009, no one issuer totaled more than five percent of the Pension Trust Fund's net assets or the County's total investments, respectively. The County's investment policy requires all investments in bond securities to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County and Pension Trust Fund's investments in U.S. obligations were rated AAA by Standard and Poor's and Aaa by Moody's Investors Service.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Credit risk and concentration of credit risk (Continued)

The investments of the Pension Trust Fund in corporate bonds, notes and mortgages were rated as follows at December 31, 2009:

S&P RATING	%
Aaa	32.83%
Aa1	3.53
Aa2	3.55
Aa3	1.28
A1	16.48
A1e	1.97
A2	16.80
A3	17.10
Baa1	4.37
Baa2	1.20
Baa2e	.89
Total	100.00%

NOTE E - REAL ESTATE TAXES

The total tax on real estate in 2009 was 39.998 mills ($39.998 per $1,000) of assessed valuation. Of this amount, 36.498 mills were levied for general and debt service purposes, 2.5 mills were levied for library services in the County and 1.0 mill was levied for culture and education fund purposes. Amounts collected for library services are remitted to the LCLS.

Real estate taxes are collected by the Single Tax Office and remitted to the County. The County's Tax Assessor Office is responsible for establishing assessed values.

The schedule for real estate taxed levied each year is as follows:

February 1	Levy date
February 1 - February 28	2.5% discount period
March 1 - April 30	2.0% discount period
May 1 - June 30	Face payment period
July 1 - December 31	10% penalty period
January 1	Lien date

Delinquent real estate taxes receivable at December 31, 2009 were approximately $16,476,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately $7,943,000.

NOTE F - CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2009 was as follows:

	January 1, 2009 (Restated)	Additions	Deletions	Transfers	December 31, 2009
Capital assets not being depreciated:					
Land	$ 3,531,702	$ -	$ -	$ -	$ 3,531,702
Construction-in-progress	39,731,934	2,045,111	-	(39,755,094)	2,021,951
Total capital assets, not being depreciated	43,263,636	2,045,111	-	(39,755,094)	5,553,653
Capital assets being depreciated:					
Buildings and improvements	77,341,509	2,112,521	-	39,755,094	119,209,124
Machinery and equipment	32,433,168	3,635,316	-	-	36,068,484
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	33,632,617	1,686,818	-	-	35,319,435
Investment in airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	153,558,186	7,434,655	-	39,755,094	200,747,935
Less accumulated depreciation for:					
Buildings and improvements	(21,995,407)	(2,531,856)	-	-	(24,527,263)
Machinery and equipment	(27,206,279)	(1,627,059)	-	-	(28,833,338)
Equipment under capital lease	(271,720)	(131,044)	-	-	(402,764)
Infrastructure	(28,382,950)	(194,195)	-	-	(28,577,145)
Investment in airport	(4,895,159)	(161,227)	-	-	(5,056,386)
Total accumulated depreciation	(82,751,515)	(4,645,381)	-	-	(87,396,896)
Total capital assets being depreciated, net	70,806,671	2,789,274	-	39,755,094	113,351,039
Governmental activities capital assets, net	$114,070,307	$4,834,385	$ -	$ -	$118,904,692

At December 31, 2009, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately $2,022,000, which is included in construction-in-progress at December 31, 2009. The County is committed to additional costs of approximately $2,100,000 related to these projects.

NOTE G - LONG-TERM OBLIGATIONS

Governmental Activities

During 1995, the County issued $725,000 of general obligation bonds (Series B of 1995) to repay a 1994 bank loan. These bonds were due in varying annual installments plus interest at rates ranging from 6.00% to 7.25%, with final maturity in 2009.

During 1999, the County issued $5,225,000 of general obligation bonds (Series B of 1999) to fund construction of an amphitheatre. These bonds are due in varying annual installments plus interest at 6.3%, with final maturity scheduled for 2019. In 2002, the County transferred the proceeds and the obligation of $4,000,000 of the bonds to the LCPACA, a component unit of the County. Principal due in 2010 is $60,000.

During 2002, the County issued $19,540,000 of general obligation bonds (Series A of 2002) to refund a 1992 and a 1995 bond issue and finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 2.000% to 5.125%, with final maturity scheduled for 2020. These bonds were partially advance refunded in 2008. Advance funding was paid to the paying agent which defeased a portion of the bonds in August 2008. There is no principal due in 2010.

During 2004, the County issued $10,110,000 of general obligation bonds (Series A of 2004) to currently refund a 1994 bond issue, finance various capital projects, and fund a deposit to the Debt Service Fund. These bonds are due in varying annual installments plus interest at rates ranging from 2.00% to 5.00%, with final maturity scheduled for 2015. Principal due in 2010 is $1,090,000.

During 2004, the County issued $4,210,000 of general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments beginning in 2008 plus interest at rates ranging from 3.76% to 5.35%, with final maturity scheduled for 2019. Principal due in 2010 is $440,000.

During 2004, the County issued $20,145,000 of general obligation bonds (Series D of 2004) to finance unfunded debt of the County, including certain outstanding obligations of the current and prior years. These bonds are due at varying quarterly installments plus interest at a variable rate (4.24% at December 31, 2009), with final maturity scheduled for 2014. Principal due in 2010 is $2,050,000.

NOTE G - LONG-TERM OBLIGATIONS (Continued)

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 4.00% to 5.00%, with final maturity scheduled for 2029. There is no principal due in 2010. These bonds were partially advanced refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009.

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 4.00% to 5.00%, with final maturity scheduled for 2029. There is no principal due in 2010. These bonds were partially advanced refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009. Principal due in 2010 is $40,000.

During 2008, the County issued $44,540,000 (Series A of 2008), $44,540,000 (Series B of 2008) and $6,745,000 (Series C of 2008) of general obligation notes. The proceeds of the Series A, B and C notes were used to advance refund a portion of the County's Series A of 2002 general obligation bonds, currently refund the outstanding Series B of 2005 and Series A of 2006 general obligation bonds and to finance various capital projects. The bonds are due in varying annual installments plus interest at variable rates (0.45% at December 31, 2009 for Series A and C of 2008 and 0.41% at December 31, 2009 for Series B of 2008) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 general obligation bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction during 2008. Advance refunding of the 2008 C Bond was paid to the paying agent which defeased the bond in June 2009. Principal due in 2010 on each of the A and B bonds is $5,000.

During 2008, the County issued $13,858,652 (Series D of 2008) of zero coupon general obligation notes and $17,960,000 (Series E of 2008) of general obligation bonds. The proceeds of the Series D notes and Series E bonds were used to advance refund a portion of the County's Series A of 1999 general obligation bonds and to finance various capital projects. The Series D of 2008 notes are due in varying installments that yield to maturity at rates ranging from 5.14% to 7.50% with final maturity scheduled for July 2023. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 3.50% to 6.125% with final maturity scheduled for January 2022. Principal due in 2010 on the E bonds is $830,000.

NOTE G - LONG-TERM OBLIGATIONS (Continued)

During 2009, the County issued $7,375,000 (Series A of 2009) of 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. Principal due in 2010 is $10,000.

During 2009, the County issued $26,495,000 (Series B of 2009) of general obligation bonds. The proceeds of the bonds were used to advance refund a portion of the County's Series A and B of 2007 bonds. The bonds are due in varying annual installments plus interest at rates ranging from 5.65% to 6.00% with final maturity scheduled for September 2034. Principal due in 2010 is $5,000.

The following summarizes the changes in bonds and note payable in 2009:

	Balance January 1, 2009	Increases	Decreases	Balance December 31, 2009	Due Within One Year
Bonds:					
Series B of 1995	$ 80,000	$ -	$ (80,000)	$ -	$ -
Series B of 1999	880,000	-	(60,000)	820,000	60,000
Series A of 2002	6,020,000	-	-	6,020,000	-
Series A of 2004	7,545,000	-	(1,055,000)	6,490,000	1,090,000
Series C of 2004	3,875,000	-	(420,000)	3,455,000	440,000
Series D of 2004	13,065,000	-	(1,950,000)	11,115,000	2,050,000
Series A of 2007	21,090,000	-	(6,865,000)	14,225,000	-
Series B of 2007	33,185,000	-	(15,120,000)	18,065,000	40,000
Series A of 2008	44,535,000	-	(5,000)	44,530,000	5,000
Series B of 2008	44,535,000	-	(5,000)	44,530,000	5,000
Series C of 2008	6,745,000	-	(6,745,000)	-	-
Series D of 2008	13,858,652	-	-	13,858,652	-
Series E of 2008	17,960,000	-	-	17,960,000	830,000
Series A of 2009	-	7,375,000	(10,000)	7,365,000	10,000
Series B of 2009	-	26,495,000	(5,000)	26,490,000	5,000
	213,373,652	33,870,000	(32,320,000)	214,923,652	4,535,000
Bond premiums, discounts and deferred refunding	(939,368)	587,973	(4,714,897)	(5,066,292)	-
Total	$212,434,284	$34,457,973	$(37,034,897)	$209,857,360	$4,535,000

Interest paid on these bonds and notes was approximately $9,613,000 in 2009.

NOTE G - LONG-TERM OBLIGATIONS (Continued)

Advance Refunding/Defeasance

In June 2009, $6,745,000 of the 2008 Series C bonds were currently refunded by depositing the proceeds of the 2009 Series A bonds, which had an aggregate principal amount of $7,375,000, to the paying agent (First Liberty Bank). As a result of this transaction, the original Series 2008 C bonds are considered defeased and the liability of those bonds has been removed from the County's financial statements. The County recognized an economic loss amounting to approximately $2,015,000 and a negative future cash flow difference of approximately $34,520,000 from this defeasance. Additionally the balance of unamortized bond issuance costs of the 2008 series C bonds amounting to $302,124 was expensed in 2009. There was no outstanding balance of defeased debt at December 31, 2009.

In June 2009, $6,865,000 of the Series A 2007 bonds and $15,085,000 of the Series B 2007 bonds were advance refunded by depositing the proceeds of the 2009 Series B bond, $24,338,396, into an irrevocable trust with an escrow agent (Manufacturers & Traders Trust Co.). In addition, approximately $2,388,000 in interest related to these bonds was advance refunded which is included in interest expense in the government-wide financial statements. As a result of this transaction, a portion of the original Series A & B 2007 bonds are considered defeased and the liability of those bonds have been removed from the County's financial statements. The County recognized an economic loss amounting to approximately $6,236,000 and a negative future cash flow difference of approximately $4,338,000 from this defeasance. The outstanding balance of the defeased debt at December 31, 2009 for the Series A 2007 and Series B 2007 bonds was approximately $6,215,000 and $14,140,000, respectively.

The refundings discussed above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt of approximately $3,214,000 in total for 2009. The total deferred refunding differences of approximately $5,289,000 at December 31, 2009, reported in the accompanying financial statements as a deduction from bonds payable, are being charged to operations through the year 2029 on a straight-line basis.

NOTE G - LONG-TERM OBLIGATIONS (Continued)

The following summarizes the County's estimated approximate future debt service requirements on these bonds and note payable, net of the effect of the interest rate swaps (Note K), as of December 31, 2009. As interest rates vary, net interest rate swap payments will vary.

Year Ended December 31,	Principal	Interest	Interest Rate Swap, Net	Total
2010	$ 4,535,000	$ 8,614,000	$ 3,954,000	$ 17,103,000
2011	4,730,000	8,525,000	3,953,000	17,208,000
2012	4,846,000	8,527,000	3,957,000	17,330,000
2013	4,613,000	8,395,000	3,949,000	16,957,000
2014	5,555,000	8,470,000	3,952,000	17,977,000
2015-2019	24,951,000	42,545,000	19,754,000	87,250,000
2020-2024	38,989,000	42,461,000	31,068,000	112,518,000
2025-2029	56,450,000	24,560,000	45,257,000	126,267,000
2030-2035	70,255,000	10,821,000	53,880,000	134,956,000
Total	$214,924,000	$162,918,000	$169,724,000	$547,566,000

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2009:

	Amount
Lackawanna County Redevelopment Authority	
Term note, due in varying semi-annual installments plus interest at 7.5%, maturing 2011	$1,934,261
Term note, due in varying semi-annual installments plus interest at 6.5%, maturing 2012	1,349,516
Total	3,283,777

NOTE G - LONG-TERM OBLIGATIONS (Continued)

	Amount
Lackawanna River Basin Sewer Authority	
PENNVEST note, due in monthly installments of $17,432 including interest at 1%; maturing 2011	$ 259,744
PENNVEST note, that bears interest at 1.274%; the loan is interest only for the first three years and matures September 2032	1,953,464
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 and matures in August 2032	1,037,018
Sewer Revenue Refunding Bonds, Series 2009, due in varying installments with interest payable semiannually at rates ranging from 1.00% to 2.75%; final maturity scheduled for September 2015	2,360,000
Total	5,610,226
Lackawanna County Performing Arts Center Authority	
General obligation bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.87% to 7.00%; final maturity scheduled for 2018. Reported net of unamortized discount of $17,111	2,710,000
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	3,080,000
Total	5,790,000

NOTE G - LONG-TERM OBLIGATIONS (Continued)

	Amount
Multi-Purpose Stadium Authority	
Note payable due in varying installments in July of each year commencing July 2011. Interest payments are due semiannually in January and July of each year commencing January 2011 at a variable interest rate equivalent to the One Month London Inter-Bank Offered Rate ("LIBOR") plus 340 basis points at 65% plus 14 basis points. The rate at December 31, 2009 was 2.50%	$ 6,590,000
Total	6,590,000
TOTAL COMPONENT UNIT DEBT	$21,274,003

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

Years Ending December 31,	Amount
2010	$2,692,600
2011	1,853,300
2012	1,356,700
2013	1,777,000
2014	1,275,800
2015-2019	4,813,300
2020-2024	2,260,700
2025-2029	2,334,900
2030-2035	2,909,700
Total	$21,274,000

Long-term bonds payable are reported net of original issue discount of approximately $195,000 on the combining balance sheet - discretely presented component units.

NOTE G - LONG-TERM OBLIGATIONS (Continued)

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, 2009, there were six general obligation bond issues outstanding and nine notes and mortgages outstanding with an aggregate balance of $153,336,682.

NOTE H - CAPITAL LEASE PAYABLE

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

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

Balance, January 1, 2009	$1,078,482
Decrease	(143,277)
Balance, December 31, 2009	935,205
Less: current portion	150,115
Long-term portion of capital lease payable	$ 785,090

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

NOTE H - CAPITAL LEASE PAYABLE (Continued)

The following is a summary of future minimum lease payments required under the capital lease along with the present value of the net minimum lease payments as of December 31, 2009:

Years Ending December 31,	Amount
2010	$ 190,617
2011	190,617
2012	190,617
2013	190,617
2014	190,617
2015	111,193
Total minimum lease payments	1,064,278
Less: amounts representing interest	(129,073)
Present value of net minimum lease payments	$ 935,205

Total interest paid on this capital lease in 2009 was $47,340.

NOTE I - COMPENSATED ABSENCES

The changes in the County's compensated absences in 2009 are summarized as follows:

Balance January 1, 2009	$3,273,517
Change, net	(393,720)
Balance, December 31, 2009	2,879,797
Less: current portion	470,673
Long-term compensated absences	$2,409,124

The County pays its compensated absences from the General Fund. The change in compensated absences is reported on a net basis as it is not practical to present the components on a gross basis.

NOTE J - PENSION PLANS

Plan description

The Lackawanna County Retirement Fund (the "Plan") is a single-employer defined benefit pension plan that covers all full-time employees of the County. The Plan provides retirement, disability and death benefits to its members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Lackawanna County Employees' Retirement Board. The Plan is covered under the Commonwealth of Pennsylvania's Act 96 of 1971 ("Act 96"), as amended, commonly referred to as the County Pension law. The County Pension law provides for the creation, maintenance and operation of this plan. A copy of the Plan's financial statements may be obtained from the County Commissioner's office.

Membership of the Plan consisted of the following at December 31, 2009, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	494
Terminated plan members entitled to but not yet receiving benefits	124
Active plan members	1,404
Total	2,022

Prior to December 31, 1987, as a condition of employment, each employee of the County was required to contribute seven percent (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, 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 such costs may be financed through investment earnings of the Plan.

NOTE J - PENSION PLANS (Continued)

Plan description (Continued)

The annual pension cost was $3,337,504, the annual required contribution ("ARC") was $3,712,594, the interest on the net pension obligation was $596,217 and the ARC adjustment was $971,307 which are based on an actuarial valuation using the entry age method. There were no County contributions to the Plan in 2009. The ARC which was required to be funded by the County's General Fund during 2010, is $4,801,039. The County did not make contributions to the Plan during 2010. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%; and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

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

Historical trend information for the Plan is presented below:

	Annual Required Contribution (ARC)	County Contribution	Percentage of ARC Contributed	Net Pension Obligation
December 31, 2007	$2,099,854	-	0%	$ 6,554,393
December 31, 2008	1,707,660	-	0%	7,949,561
December 31, 2009	3,712,594	-	0%	11,287,065

Information regarding the Plan can be obtained from the County.

NOTE K - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS

Objective of the interest rate swaps

As a means to manage interest rate exposure, the County entered into a pay-fixed, receive-variable interest rate swap agreement to effectively change the County's variable interest rate on certain bonds to a synthetic fixed rate.

NOTE K - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS (Continued)

Terms

During 2008, the County entered into a pay-fixed, receive-variable interest rate swap agreement and with PNC Bank, National Association on its Series A and B 2008 general obligation notes. The agreement terminates on September 1, 2035. The notional value of the swap at inception was $89,080,000 and at December 31, 2009 was $89,070,000. The effect of the swap entered into on June 24, 2008 required the County to receive a variable payment based on 63% of One-Month LIBOR plus a fixed spread of 25 basis points (0.25%) and to pay a fixed rate of 3.7875% on the 1st of each month. On February 12, 2009 the swap agreement was amended such that the County will receive a rate equal to 63% of Three-Month LIBOR plus 25 basis points (0.25%) and to pay a fixed rate of 3.8125% through the final maturity. The swap creates a synthetic fixed coupon on the Series A and B 2008 general obligation notes equal to the fixed swap rate of 3.8125% at December 31, 2009. The County terminated this swap agreement in October 2010 and paid approximately $10,183,000 upon termination from the proceeds of the Series B 2010 general obligation bonds.

Fair Value

At December 31, 2009, the swap had a fair value as follows:

2008 Series A & B:	
Rate Swap	$(9,432,900)

The fair value was provided by a financial advisory firm and is based on a proprietary model.

Credit Risk

As of December 31, 2009, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

If the County's long-term credit rating is downgraded in the future, the counterparty could declare a 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 an amount of collateral required the counterparty will have the ability to obligate the County to terminate the swap at the then current market rate. There were no such events that occurred before the County terminated the swap in October 2010.

NOTE K - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS (Continued)

Basis Risk / Interest Rate Risk

The swap exposes the County to basis risk should the relationship between the One-Month LIBOR as determined by the remarketing agent and the fixed rate converge, changing the synthetic rate on the bonds. The risk is that interest rates move such that the 63% of the 1-Month LIBOR rate plus 25 basis points received by the County is slightly higher than the variable rate paid by the County to note holders in connection with its Series A and B 2008 Variable Rate Notes. If the 63% of LIBOR rate plus 25 basis points received by the County is lower than the variable rate the County is paying to its note holders of the Series A and B 2008 Variable Rate Notes, the County would not have an effective hedge of the 2008 A & B Variable Rate Notes.

Termination risk

The derivative contracts use the International Swaps and Derivative Association, Inc. ("ISDA") master agreement, which includes standard termination events, such as failure-to-pay and bankruptcy. The County or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the County would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover Risk

The County is obligated to terminate or roll the swap to hedge a different series of debt if it decides to refinance its General Obligation Notes, Series A of 2008 or its General Obligation Notes, Series B of 2008. The County terminated this swap agreement in October 2010.

Term and Notional Amount

In connection with the issuance or carrying of debt, the term of the derivative product agreement shall not extend beyond the final maturity date of the related debt. The total notional amount of a derivative product related to a debt issue may not exceed the amount of outstanding debt.

NOTE L - DEFICIT BALANCES

The General Fund has a net deficit of $9,504,308 at December 31, 2009. The County, in 2010 sold its nursing home with the intent to subsidize the general fund with approximately $5,100,000 of the net proceeds from the sale which were approximately $10,320,000. In addition the County is negotiating the sale of a baseball franchise, owned by the Multi Purpose Stadium Authority of Lackawanna County. When the franchise sale is finalized, the Authority intends to repay some of the monies which the County has advanced to the Authority over the years and the County intends to utilize these funds to subsidize general fund deficits. Once these resources have been exhausted, the County intends to continue to reduce costs and enhance revenue streams from non traditional sources as well as implementing real estate tax increases in order to prudently manage the County's Fund Balance.

The Health and Human Services Fund has a net deficit of $869,308 at December 31, 2009. This deficit is the result of the Lackawanna Health Care Center which operated at a deficit for the year ended December 31, 2009. The continuing need to subsidize the County nursing home as well as the potential liability resulting from the ownership of a nursing home facility were two of the critical components of the County's decision to sell the nursing home, which sale was completed in March, 2010.

The Internal Service Fund has a net deficit of $1,141,166 at December 31, 2009. The Internal Service Fund will always reflect a deficit balance due to the fact that the County's, State monitored, self funded Workers Compensation plan reflects accruals at the end of each year for claims incurred and reported as well as an accrual for actuarially determined incurred but not reported claims. The requirements for funding a trust account for these incurred but not reported claims is actuarily determined to be a lesser amount than the accrual for these claims, resulting in the fund always reflecting an accumulated deficit.

The individual non-major funds that had net deficit balances at December 31, 2009 were the Liquid Fuels Fund $290,000, and the Help America Vote Act Fund $26,000. Both the Liquid Fuels Fund and the Help America Vote Act fund are funds that are subsidized by the General Fund, and the deficits reflected at December 31, 2009 are reflecting only that the General Fund had not yet provided those funds with subsidies to offset those deficits.

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of $3,072,981 at December 31, 2009. The deficit resulted from the financing of the PEI Power Park infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Redevelopment Authority anticipates the deficit to be substantially eliminated by the year 2011 when the notes mature.

NOTE M - RESERVED FUND BALANCES

The County has reserved funds for the following purposes at December 31, 2009:

Purpose	Debt Service Fund	Capital Projects Fund	Non-Major Fund
Reserve for encumbrances			$2,828,925
Reserve for capital projects		$12,578,534	-
Reserve for debt service	$2,459,047	-	-
Total	$2,459,047	$12,578,534	$2,828,925

NOTE N - SELF INSURANCE

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance.

The County has elected to self-insure its workers' compensation risk. The County established an Internal Service Fund to account for all the transactions associated with its self-insurance. The Internal Service Fund charges the County's other funds an amount equal to its estimated annual cost. A stop loss policy limits the County's exposure to large claims to $500,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The County uses an actuary to determine the amount of claim liabilities at year-end.

Changes in the balance of claims liabilities are as follows:

Balance, January 1, 2009	$2,584,519
Claims incurred	709,346
Claims paid	(876,620)
Balance, December 31, 2009	$2,417,545

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.

NOTE O - INTERFUND BALANCES/TRANSFERS

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2009 are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	$606,034	$11,721,093
Health and Human Services Funds	-	818,487
Debt Service Fund	210,425	-
Capital Projects Fund	10,731,669	574,981
Non-Major Funds	1,871,140	304,707
Fiduciary Fund - Agency Fund	1,913,064	1,913,064
Totals	$15,332,332	$15,332,332

The amounts due to the General Fund are generally for payroll. All of these items were repaid in 2010.

Interfund transfers in 2009 are summarized as follows:

	Transfers In	Transfers Out
General Fund:		
Debt Service Fund	$ 4,585	$15,142,521
Non-Major Funds	153,043	2,847,148
Capital Projects Fund	21,945	-
Proprietary Fund - Internal Service Fund	-	184,527
Total General Fund	179,573	18,174,196
Debt Service Fund:		
General Fund	15,142,521	4,585
Capital Projects Fund:		
General Fund	-	21,945
Non-Major Funds	4,953,782	-
Total Capital Projects Fund	4,953,782	21,945
Non-Major Funds:		
General Fund	2,847,148	153,043
Capital Projects Fund	-	4,953,782
Total Non-Major Funds	2,847,148	5,106,825
Proprietary Fund - Internal Service Fund:		
General Fund	184,527	-
	$23,307,551	$23,307,551

- Transfers out by the General Fund were primarily for debt service and operational costs.
- Transfers in to the Debt Service Fund were primarily used for debt service.
- Transfers in to the Capital Projects Fund were primarily used for capital outlay.
- Transfers in to the Non-Major Funds were primarily used for operational costs, while transfers out were primarily for debt service and capital outlay.

NOTE O - INTERFUND BALANCES/TRANSFERS (Continued)

Due from/to component units

At December 31, 2009, the County owed the COLTS $959,661 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2009, the amounts shown in the component unit financial statements do not agree to the governmental activities.

The County has advanced approximately $13,412,000 to the MPSA primarily to fund MPSA's debt service payments and capital projects. Based on the current financial condition of MPSA, the County does not believe MPSA has the current ability to repay this advance and, accordingly, has recorded an allowance for the entire amount.

NOTE P - 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, notwithstanding the items addressed separately below, that all other matters either are adequately covered by insurance or will not have a material effect on the County's financial statements.

The County is involved in a wrongful termination case involving 17 plaintiffs. The plaintiffs have alleged that the terminations were politically based and were done in violation of their rights. This matter is currently being litigated, and the County is vigorously contesting the claim. An out-of-court settlement is anticipated. Demands for settlement range between $1,000,000 and $2,000,000. While the County has insurance coverage through several policies available for these claims, it is reasonably possible that there remains significant potential exposure to the County above the insurance coverage.

The County is involved in a claim by a prison inmate that his civil rights were violated when he was attacked by another inmate in August 2010. Though the County is pursuing a settlement, it faces potential exposure to a verdict in excess of its insurance coverage ranging from $5 million to $10 million. The County is vigorously contesting the litigation.

NOTE P - CONTINGENCIES (Continued)

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

NOTE Q - CONCENTRATION OF LABOR

At December 31, 2009, approximately 58% of the County's employees are represented by unions, whose existing labor agreements expire on December 31, 2012 and December 31, 2013.

NOTE R - POSTEMPLOYMENT BENEFITS

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

The County adopted this accounting standard during 2008 and has determined through a review of its plans that it does not provide significant postemployment benefits as defined in GASB Statement No. 45 to retirees or their spouses and dependents.

NOTE S - SIGNIFICANT EVENTS

On June 21, 2011 a jury handed down convictions of former Commissioner Robert C. Cordaro and Commissioner Anthony J. Munchak in the United States District Court for the Middle District of Pennsylvania.

Robert C. Cordaro was convicted of eighteen counts, including bribery, extortion, money laundering, conspiracy and tax evasion. Anthony J. Munchak was convicted of eight counts, including bribery, extortion, conspiracy and income tax evasion.

NOTE S - SIGNIFICANT EVENTS (Continued)

The crimes stem from events for the time period during which Commissioner Cordaro and Commissioner Munchak were Majority Commissioners of Lackawanna County. That time frame ran from January 2004 through January 2008. Former Commissioner Cordaro was defeated in the November 2007 election and current Commissioner Munchak as the third place vote getter in the November 2007 election, assumed the role of Minority Commissioner in January 2008.

Commissioner Munchak resigned his position as a Lackawanna County Commissioner on June 22, 2011.

The jury verdicts against the former Commissioners will have no adverse material impact on the County, its financial condition, or the County's ability to pay any of its current or future outstanding obligations.

NOTE T- SUBSEQUENT EVENTS

In March 2010, the County completed the sale of the Lackawanna County Health Care Center for $13,400,000 to a private ownership group. The net proceeds from the sale amounted to approximately $10,320,000.

In April 2010, the County issued $3,319,000 (Series A of 2010) of general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series B of 1999 general obligation bonds. The bonds are due in varying annual installments plus interest at a rate of 4.94% with final maturity scheduled for February 2019. There is no principal due in 2010.

In October 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 A 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 1.5% to 5% with final maturity scheduled for September 2035. There are no principal payments due in 2010. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 A & B general obligation notes and paid approximately $10,183,000 upon termination from the proceeds of the bonds.

NOTE T- SUBSEQUENT EVENTS (Continued)

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 + 0.787% payable on the 1st Day of each March and September through final maturity. The County receives a variable rate equal to 68% of 3-Month LIBOR + 0.15% payable to the County on the 1st Day of each March and September through final maturity. The Swap Notional amount amortizes through termination as the 2010 B Bonds amortize.

In November 2010, the MPSA entered into a Memorandum of Understanding with SWB Yankees LLC to sell its baseball franchise for a price of $14,600,000. The agreement also contained provisions that would require SWB Yankees LLC to enter into a thirty-year lease agreement at the MPSA's stadium at an annual payment of $750,000 and the right to repurchase the franchise by the MPSA at fair market value. The sale has not been completed as of July 2011, but is expected to be finalized in 2011.

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
GENERAL, LIQUID FUELS AND DEBT SERVICE FUNDS BUDGET AND ACTUAL (BUDGETARY MODIFIED CASH BASIS) - UNAUDITED
FOR THE YEAR ENDED DECEMBER 31, 2009

	GENERAL FUND			LIQUID FUELS FUND			DEBT SERVICE FUND		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS									
Taxes	$ 41,197,853	42,041,347	$ 843,494				$ 11,980,688	15,151,852	$ 3,171,164
Payments in-lieu of taxes	232,720	246,815	14,095				-	-	-
Grants	22,659,297	17,733,725	(4,925,572)	$ 993,975	$ 3,523,037	$ 2,529,062	-	-	-
Charges for services	20,592,489	16,130,293	(4,462,196)	-	-	-	-	-	-
Interest and rent	525,000	14,819	(510,181)	22,000	1,270	(20,730)	80,000	5,745	(74,255)
Fines and forfeitures	68,000	66,023	(1,977)	-	-	-	-	-	-
Contributions and other	-	-	-	2,000	174,338	172,338	1,687,000	-	(1,687,000)
Total receipts	85,275,359	76,233,022	(9,042,337)	1,017,975	3,698,645	2,680,670	13,747,688	15,157,597	1,409,909
DISBURSEMENTS									
General government - administrative	20,515,311	18,153,615	2,361,696				-	3,940,858	(3,940,858)
General government - judicial	17,492,603	13,903,297	3,589,306				-	-	-
Public safety	25,726,708	21,856,266	3,870,442				-	-	-
Public works	137,105	89,968	47,137	1,000,055	3,572,772	(2,572,717)	-	-	-
Human services	18,286,803	14,344,073	3,942,730	-	-	-	-	-	-
Culture and recreation	2,600,910	1,748,588	852,322	-	-	-	-	-	-
Conservation and development	630,969	528,049	102,920	-	-	-	-	-	-
Miscellaneous expense	966,680	743,059	223,621	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	15,622,327	17,594,319	(1,971,992)
Total disbursements	86,357,089	71,366,915	14,990,174	1,000,055	3,572,772	(2,572,717)	15,622,327	21,535,177	(5,912,850)
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS BEFORE OTHER FINANCING SOURCES (USES)	(1,081,730)	4,866,107	5,947,837	17,920	125,873	107,953	(1,874,639)	(6,377,580)	(4,502,941)
OTHER FINANCING SOURCES (USES)									
Bond proceeds, net	-	-	-	-	-	-	-	6,068,163	6,068,163
Transfers in	-	179,573	(179,573)	-	-	-	1,684,782	-	(1,684,782)
Transfers out	-	(3,022,344)	(3,022,344)	-	-	-	-	(4,585)	(4,585)
Total other financing sources (uses), net	-	(2,842,771)	(3,201,917)	-	-	-	1,684,782	6,063,578	4,378,796
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(1,081,730)	2,023,336	3,105,066	17,920	125,873	107,953	(189,857)	(314,002)	(124,145)
FUND BALANCE, BEGINNING	1,190,622	1,064,473	(126,149)	124,948	279,025	154,077	26,082	2,369,297	2,343,215
FUND BALANCE, ENDING	$ 108,892	$ 3,087,809	$ 2,978,917	$ 142,868	$ 404,898	$ 262,030	$ (163,775)	$ 2,055,295	$ 2,219,070

The accompanying note to this statement and the notes to the basic financial statements are an integral part of this financial statement.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTE TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
UNAUDITED
DECEMBER 31, 2009

NOTE 1 - RECONCILIATION OF BUDGETARY CASH BASIS TO GAAP BASIS

A reconciliation of the County's budgetary cash basis to GAAP basis for 2009 is as follows:

	General Fund	Liquid Fuels	Debt Service
Excess (deficiency) of revenues and expenditures (budgetary cash basis)	$ 2,023,336	$ 125,873	$(314,002)
Reversal of prior year:			
Receivables	(16,918,317)	-	(275,175)
Liabilities	17,949,352	1,276,882	487,663
Record current year:			
Receivables	19,666,795	-	485,600
Liabilities	(33,765,137)	(695,353)	(81,846)
Excess (deficiency) of revenues over expenditures (GAAP basis)	$(11,043,971)	$ 707,402	$ 302,240

For budget purposes, taxes collected by the General Fund and transferred to the Debt Service Fund were reported net. The actual revenue and transfers were reported gross on the General Fund.

COUNTY OF LACKAWANNA, PENNSYLVANIA

REQUIRED SUPPLEMENTAL PENSION INFORMATION
UNAUDITED
DECEMBER 31, 2009

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE (b)	UNFUNDED AAL (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((b-a)/c)
January 1, 2006	104,954,131	114,543,257	9,589,126	91.6%	45,474,796	21.1%
January 1, 2007	118,608,487	124,198,042	5,589,555	95.5%	48,978,779	11.4%
January 1, 2008	133,074,285	135,787,677	2,713,392	98.0%	53,566,168	5.1%
January 1, 2009	126,590,597	148,389,777	21,799,180	85.3%	54,182,910	40.2%
January 1, 2010	124,908,886	159,480,512	34,571,626	78.3%	55,414,144	62.4%

The accompanying notes are an integral part of this schedule.

OTHER MATTERS

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PLAN. PERFORM. PROSPER.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**The Commissioners of the
County of Lackawanna, Pennsylvania**

We have audited the financial statements of the governmental activities, business type activities, 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, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 21, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Lackawanna County Area Agency on Aging ("LCAAA", a Special Revenue Fund), Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA", a blended component unit), Lackawanna Day Care and Child Development Program ("LDCCDP", a Special Revenue Fund), Pension Trust Fund and the following entities collectively referred to as "Component Units": the 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, Multi-Purpose Stadium Authority of Lackawanna County, and the Lackawanna County Performing Arts Center Authority, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by these auditors. The financial statements of the Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Redevelopment Authority, and the Lackawanna County Performing Arts Center Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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The Commissioners of the
County of Lackawanna, Pennsylvania

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying Schedule of Findings and Responses that we consider to be a material weakness, as defined above and other deficiencies that we consider to be significant deficiencies. We consider Finding No. 09-3 to be a material weakness in internal control over financial reporting. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting, Finding Nos. 09-1, 09-2, and 09-4. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Responses as Findings No. 09-1 and 09-5. We noted certain matters that we reported to management of the County in a separate letter.

The Commissioners of the
County of Lackawanna, Pennsylvania

ASHER & COMPANY, LTD.
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The County's responses to the findings identified in our audit are described in the schedule of Findings and Responses. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Commissioners, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Asher & Company, Ltd.

ASHER & COMPANY, Ltd.

July 21, 2011

COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2009

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding No. 09-1: Grant financial reporting

Condition:

The County's system of tracking its grants and matching grant revenues with grant expenditures lacks the sophistication needed, given the number and complexities of the County's grant activities and the County's requirements to prepare a complete and accurate Schedule of Expenditures and Federal Awards.

Criteria:

The tracking and matching of grant revenues and expenditures and the related grants receivable and deferred revenue amounts is necessary to assist in making management decisions and for the proper reporting and use of these funds in accordance with each grant requirement.

Effect:

Grants receivable and deferred revenue amounts are not readily available to assist in making management decisions. The County has not submitted its 2009 and 2008 Schedules of Expenditures and Federal Awards by the prescribed Federal deadline. In addition, a granting agency communicated that the activities of their grants were not included on the 2007 Schedule of Expenditures and Federal Awards submitted by the County.

Cause:

The County's system of tracking its grants and matching grant revenues with grant expenditures lacks the sophistication needed, given the number and complexities of the County's grant activities. The County did not prepare a complete and accurate Schedule of Expenditures of Federal Awards in a timely manner in order to comply with its financial reporting requirements.

Recommendation:

We recommend that copies of all grants received for all departments of the County be maintained in a central grant file. Management should prepare a tracking schedule that details the total amount of the grant award and all amounts expended in relation to that grant. This schedule should be reconciled monthly by management to ensure that the schedule is complete. Management should use this schedule to prepare a complete and accurate Schedule of Expenditures of Federal Awards.

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding No. 09-1: Grant financial reporting **(Continued)**

Management's response:

Management agrees with the comment and has been working toward better accountability in the area of Grant accounting. In September 2005, the County implemented a Financial Accounting system that allows the County to more appropriately match grant revenues with expenditures. In addition, the departments who receive the grants file Financial and Program reports either quarterly on annually with the agency that provides the grants as well as close out reports when the grant is completed. The County will begin to collect all grants in a central grant file.

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 09-2: Preparation of financial statements

Condition:

The County's financial statements are required to be prepared in accordance with standards promulgated by the Government Accounting Standards Board (GASB). The County's internal accounting personnel do not have the specialized training that would allow them to prepare the County's financial statements under these standards.

Criteria:

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (in this case GASB) is a required component of internal control over financial reporting.

Effect:

There is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential would not be prevented or detected by the County's internal accounting department.

Cause:

The County does not have a GASB trained accounting staff member to prepare the County's financial statements and provide the statements to management for review.

Recommendation:

We recommend that management train an accounting staff member in GASB financial statement preparation, trends and techniques.

Management's response:

Management agrees with the comment and has annually hired an outside accounting firm to assist the County in its efforts to present GASB compliant financial statements. More recently the County has hired an accountant and is working toward mitigating this deficiency in internal control.

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 09-3: Reconciliation of balance sheet accounts (fund balances) and accounts included in the statement of net assets.

Condition:

The County does not reconcile certain balance sheet accounts, including certain cash accounts and accounts payable, to subsidiary records on a timely basis. As an example, the County did not reconcile its capital asset detail and certain cash accounts until more than twelve months after year end.

Criteria:

Effective control activities that provide for the timely reconciliation of balance sheet accounts and accounts included in the statement of net assets are required to assist in the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to assist in the prevention and detection of errors and fraud.

Effect:

Timely and accurate financial statements are not available to assist in the decision making and budgeting process and several adjusting journal entries were recorded after the financial close process to adjust for discrepancies identified in the reconciliations. In addition, this condition contributed to a restatement of the 2009 Government-wide financial statements related to the opening balance of capital assets.

Cause:

There are no procedures in place for the periodic reconciliation of balance sheet accounts to subsidiary ledgers on a timely basis and for the review of these reconciliations by management.

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

***Finding No. 09-3: Reconciliation of balance sheet accounts (fund balances) and accounts included in the statement of net assets.* - (Continued)**

Recommendation:

We recommend that management develop account reconciliation policies and procedures for all significant balance sheet accounts along with accounts included in the statement of net assets and assign specific groups of accounts to internal accounting staff to reconcile on a monthly or quarterly basis as deemed appropriate. We also recommend that these procedures should incorporate reconciliation worksheets that are approved by management that will provide procedures and instructions for the accounting staff to follow during the reconciliations process. These worksheets should also contain a section for the preparer and reviewer to initial and date once the accounts have been reconciled to provide evidence of the operation and compliance with this process.

Management's response:

Management agrees with the comment and has undertaken measures, notably hiring an accountant who is in the process of managing the County's financial accounting system and coordinating the aforementioned periodic reconciliations.

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 09-4: Payroll system

Condition:

The same County employee initiates and records the employee data for new employees in the payroll system as well as entering and processing the regular payrolls for those same individuals.

Criteria:

Effective control activities over payroll are required to assure the accuracy of each employee's payroll.

Effect:

There is more than a remote likelihood that a payroll error could occur that would not be prevented or detected by the County payroll system.

Cause:

There is not a proper segregation of duties in the payroll department. Payroll departmental staff enters the payroll information along with any payroll changes. They are also responsible for the processing of payroll which does not allow for proper segregation of duties.

Recommendation:

We recommend that management segregate the duties of those in the payroll department such that the person processing regular payrolls cannot open or alter an employee record in the payroll system.

Management's response:

Management agrees with the comment and is presently in the process of training the County's Human Resources department to utilize the County's financial accounting system as it relates to the payroll and Human Resources functions. Once this training is complete, there will be more appropriate segregation of duties in the payroll processing.

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Finding No. 09-5: Pension Plans

Condition:

The County's actuary believes that the County may be in violation of the County Pension Law, title 16 P.S.11661 related to the County's Pension Plans.

Criteria:

Title 16 P.S.11661 entitled *County Guarantee; Annual Budgets* states, "The regular interest charges payable, the creation and maintenance of the necessary reserves for the payment of the County and members' annuities in accordance with this act, and the additional retirement benefits, are hereby made obligations of the County. The board shall prepare and submit to the County Commissioners, on or before the first day of November of each year, an itemized estimate of the amounts necessary to be appropriated by the County to complete the payment of the obligations of the County during the next fiscal year."

The County's actuary is required to certify to the board annually in accordance with Section 11656 the amount of appropriations to be made by the County to the fund to build up and maintain adequate reserves for the payment of the County's share of the retirement allowances.

Effect:

When the annual required contribution (ARC) is not funded, the County's actuary believes that the actuarial soundness of the pension fund is impaired.

Cause:

The ARC was not funded by the County in the years 2001, 2002, 2003, 2005, 2007, 2008 and 2009.

Recommendation:

We recommend that the County should consult with its counsel to determine if the Plan is funded in compliance with all applicable laws and regulations.

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 09-5: Pension Plans (Continued)

Management's response:

The County has not funded its ARC during the years mentioned because until 2008, when the global economy began to fail, the plan was approximately 90% funded, which means that the plan's assets were sufficient to fund approximately 90% the calculated Actuarial Accrued Liability to cover future benefits. The funded ratio for the plan was at 98% as recently as January 1, 2008. The County realizes that, especially in today's volatile economic climate, the need to maintain the Funded Ratio of the County pension plan is of critical importance and to the extent that the plan's earnings are not enough to maintain the Funded Ratio in the mid 90% range, the County will need to appropriate funds in future years in order to keep the County's Unfunded Accrued Actuarial Liability at or near zero.