

**County Of Lackawanna,
Pennsylvania**

Financial Statements and
Supplementary Information

December 31, 2010



County Of Lackawanna, Pennsylvania

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December 31, 2010

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County Of Lackawanna, Pennsylvania

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Supplementary Information

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Independent Auditors' Report

Commissioners of Lackawanna County
Scranton, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2010, 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 the Lackawanna County Area Agency on Aging and Lackawanna County Children and Youth Services (departments of the Health and Human Services Fund) and the Lackawanna County Commission on Drug and Alcohol Abuse (a blended component unit of the Health and Human Services Fund) which represent 68%, 35%, and 77% , respectively of the assets, fund balances, and revenues of the Health and Human Services Fund and 2%, 1%, 16%, respectively, of the assets, net assets, and revenues of the governmental activities. We did not audit the Lackawanna County Day Care and Child Development Program (a department of the General Fund) which represents 6%, 1%, 12%, respectively of the assets, fund balances, and revenues of the General Fund and 1%, 1%, 8%, respectively, of the assets, net assets, and revenues of the governmental activities. We did not audit the financial statements of the Pension Trust Fund which represents 96%, 100%, 100%, respectively of the assets, net assets and revenues of the Fiduciary Fund. 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 the Lackawanna County Area Agency on Aging, Lackawanna County Children and Youth Services, Lackawanna County Commission on Drug and Alcohol Abuse, Lackawanna County Day Care and Child Development Program and Pension Trust Fund, is based on the reports of the other auditors. Last, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the 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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania as of December 31, 2010, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 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.

As disclosed in Note 1 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* in 2010. The County restated the beginning Net Assets of its governmental activities.

The Management's Discussion and Analysis on pages 3 through 12, the budgetary comparison information on page 57 and the schedule of funding progress for the Pension Trust Fund on page 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Wilkes-Barre, Pennsylvania
December 29, 2011

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2010

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, 2010 compared to the year ended December 31, 2009. 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 \$104,572,634 at December 31, 2010.

General Fund expenses exceeded revenues in 2010. This increased the General Fund balance deficit from \$9,504,308 at December 31, 2009 to a deficit of \$11,367,209 at December 31, 2010.

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, as well as implementing a fleet of County owned hybrid vehicles to reduce reimbursements to employees who had used their personal vehicles for County business.

Since 2008, the County has been involved in a debt restructuring program and has continued to pursue conservative measures related to its debt service, with an eye toward limiting SWAP and variable interest rate exposure.

In March 2010, the County entered into an Asset Purchase Agreement with PA Lackawanna Holdings, LLC and Lackawanna Health Care Center, LLC, to sell the County owned nursing home. This transaction resulted in positive cash flow for the County in the amount of \$5,100,00, of which the County utilized \$3,100,000 to subsidize the County's General Fund in 2010 and expects to utilize the remaining \$2,000,000 to subsidize the County's 2011 General Fund.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

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 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 13-14 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 of the governmental funds that are not considered individually significant have been aggregated and are reported under the caption "Non-Major".

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2010

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 55.

The basic fund financial statements can be found on pages 16-24 of this report.

Fiduciary Funds

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

The basic Fiduciary Fund financial statements can be found on pages 22-23 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 26-54 of this report.

Governmental Activities Condensed Statement of Net Assets December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current and other assets	\$ 48,562,611	\$ 48,271,847
Capital assets	115,387,837	118,904,692
Total assets	<u>\$ 163,950,448</u>	<u>\$ 167,176,539</u>
Liabilities and Net Deficit		
Current liabilities	\$ 30,672,412	\$ 32,190,834
Long term and other liabilities	237,850,670	216,091,045
Total liabilities	<u>\$ 268,523,082</u>	<u>\$ 248,281,879</u>
Net Assets (Deficit)		
Invested in capital assets, net of related debt	\$ (67,353,373)	\$ (57,679,024)
Restricted	3,177,533	2,279,416
Unrestricted	(40,396,794)	(25,705,732)
Total net deficit	<u>\$ (104,572,634)</u>	<u>\$ (81,105,340)</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

Total Assets of the Lackawanna County primary government decreased by \$3,226,091 from 2009 to 2010 from \$167,176,539 to \$163,950,448. This amounts to a 2% decrease.

The County's Total Liabilities increased by \$20,241,203 in 2010. This was due primarily to an increase in long-term debt of \$21,759,625. This includes an increase in bonds and notes payable of \$8,447,527 and \$11,001,955 relating to refunding of the County's General Obligation Note, Series A of 2008 and related swap agreement.

Condensed Statement of Governmental Activities Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 33,864,962	\$ 45,771,820
Operating Grants and contributions	45,671,922	49,135,584
Capital grants and contributions	2,881,637	5,758,190
General Revenues:		
Tax levy for general purposes, net	54,157,984	56,906,684
Contributions and other	(4,409,914)	585,581
Total revenues	<u>132,166,591</u>	<u>158,157,859</u>
Expenses:		
General government – administrative	19,762,120	22,446,385
General government – judicial	21,867,109	19,160,578
Corrections	32,049,424	31,375,340
Public works and enterprises	3,384,638	3,276,396
Human services	43,954,470	63,838,493
Culture and recreation	5,106,238	6,579,658
Conservation and development	4,833,575	3,032,365
Depreciation	3,813,485	4,645,380
Interest-long term debt	11,429,876	11,811,096
Total expenses	<u>146,200,935</u>	<u>166,165,691</u>
Changes in net assets	(14,034,394)	(8,007,832)
Net deficit, beginning	(81,105,340)	(69,148,157)
Prior period adjustments	(9,432,900)	(3,949,351)
Net deficit, ending	<u>\$ (104,572,634)</u>	<u>\$ (81,105,340)</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2010

Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2009.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 54,486,930	\$ 55,327,413	\$ (840,483)	(1.5)	%
Intergovernmental	20,310,313	20,192,231	118,082	.6	
Charges for service	17,580,102	15,035,312	2,544,790	16.9	
Other	32,416	327,657	(295,241)	(90.1)	
Transfers in	<u>6,100,000</u>	<u>179,573</u>	<u>5,920,427</u>	<u>3,296.9</u>	
Total revenue	<u>\$ 98,509,761</u>	<u>\$ 91,062,186</u>	<u>\$ 7,447,575</u>	<u>8.2</u>	<u>%</u>

Total revenue in the General Fund increased by \$7,447,575 or approximately 8% from 2009 to 2010. Tax revenue decreased by approximately \$840,000 because of the need to allocate additional tax revenue to debt service obligations. Charges for services increased by approximately \$2,554,000 due primarily to an increase in reimbursements to the County prison of approximately \$1,575,000 for housing U.S. Marshall and Department of Corrections prisoners and booking fee revenues derived from a new Central Book department in the approximate amount of \$319,000 and an overall increase in the fees collected by the various County Row Offices.

Transfers in increased by approximately \$5,900,000 due to a transfer of a portion of the proceeds from the sale of the County's Nursing Home in March 2010.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

General Fund (Major Fund)

The following represents a summary of General Fund expenditures, by function, along with changes from 2009.

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government – administrative	\$ 18,846,592	\$ 20,301,363	\$ (1,454,771)	(7.2)	%
General government – judicial	18,285,804	16,625,075	1,660,729	10.0	
Public safety – corrections	26,907,704	26,134,957	772,747	3.0	
Public works	132,250	107,580	24,670	22.9	
Health and human services	16,637,405	17,152,140	(514,735)	(3.0)	
Culture and recreation	2,543,064	2,090,900	452,164	21.6	
Community and economic development	613,361	631,422	(18,061)	(2.9)	
Miscellaneous	761,591	888,524	(126,933)	(14.3)	
Transfers	15,644,891	18,174,196	(2,529,305)	(13.9)	
Total expenses	<u>\$ 100,372,662</u>	<u>\$ 102,106,157</u>	<u>\$ (1,733,495)</u>	<u>(1.7)</u>	<u>%</u>

Total expenses in the General Fund decreased by \$1,733,495 from 2009 to 2010. Expenses within the general government – administrative function decreased by \$1,454,771 due to a decrease of \$916,000 in the County's pension obligation from 2009 to 2010.

Expenses within the general government – judicial function increased by \$1,660,729 due to an increase of approximately \$770,000 in expenses related to the County's 24/7 Central Booking unit coupled with salary increases stemming from various Collective Bargaining agreements and increases in employee health care costs.

Expenses within the public safety – corrections function increased by \$772,747 due to salary increases stemming from various Collective Bargaining agreements and increases in employee health care costs.

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 County Nursing Home activity was included through the date of sale, March 2010.

The Health and Human Services Fund revenues and expenses decreased by approximately \$17,700,000 and \$18,700,000, respectively. These decreases coincide with the March 2010 sale of the County Nursing Home for \$13,400,000. Net proceeds from the sale amounted to approximately \$10,320,000.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

The Health and Human service Fund has a fund balance of \$739,565. This is an increase of \$1,608,873 from the 2009 final ending fund balance deficit of \$869,308.

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.

During 2010, the County issued 2 refunding bond series with a gross principal balance of \$59,360,000. These bond issues refunded \$44,345,000 in outstanding debt and funded the termination payment for a portion of the County's interest rate swap amounting to \$10,182,500. See footnote 6 for additional information regarding the County's outstanding debt.

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance increased from \$12,578,543 at December 31, 2009 to \$13,803,050 at December 31, 2010. Proceeds from the sale of the County's Nursing Home were transferred into this fund during 2010. The County subsequently transferred \$3,100,000 of these proceeds to the General Fund to subsidize operations.

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, 2010 were \$1,187,222.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of (\$460,618) as of December 31, 2010. This is a decrease of \$680,548 in the fund deficit of (\$1,141,166) reported at December 31, 2009.

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 \$8,286,740 during 2010 resulting in Plan net assets of \$130,944,238 at December 31, 2010. Plan net assets were at \$122,657,498 at December 31, 2009

Plan contributions by members amounted to \$3,859,609 and \$4,449,445 in 2010 and 2009, respectively. Benefits paid to retired members were \$5,708,411 and \$5,634,539 in 2010 and 2009, respectively.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,925,444 in that role as of December 31, 2010.

Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2010 was as follows:

	January 1, 2010	Acquisitions	Disposals	Transfer	December 31, 2010
Capital assets not being depreciated:					
Land	\$ 3,531,702	\$ 1,533	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	2,021,951	2,745,454	(272,572)	(929,307)	3,565,526
Total capital assets not being depreciated	5,553,653	2,746,987	(272,572)	(929,307)	7,098,761
Capital assets being depreciated					
Buildings and improvements	119,209,124	1,099,023	(10,766,054)	929,307	110,471,400
Machinery and equipment	36,068,484	738,892	(1,084,328)	-	35,723,048
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	35,319,435	461,976	-	-	35,781,411
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets being depreciated	200,747,935	2,299,891	(11,850,382)	929,307	192,126,751
Less accumulated depreciation for:					
Buildings and improvements	(24,527,263)	(2,673,731)	4,522,644	-	(22,678,350)
Machinery and equipment	(28,833,338)	(2,414,006)	1,738,327	-	(29,509,017)
Equipment under capital lease	(402,764)	(94,888)	-	-	(497,652)
Infrastructure	(28,577,145)	(245,158)	555,270	-	(28,267,033)
Investment in Airport	(5,056,386)	1,614,298	556,465	-	(2,885,623)
Total accumulated depreciation	(87,396,896)	(3,813,485)	7,372,706	-	(83,837,675)
Net capital assets being depreciated	113,351,039	(1,513,594)	(4,477,676)	929,307	108,289,076
Total	\$ 118,904,692	\$ 1,233,393	\$ (4,750,248)	\$ -	\$ 115,387,837

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2010

At December 31, 2010, the County has committed \$3,565,526 to various ongoing construction projects. Total capital assets decreased from \$118,904,692 at December 31, 2009 to \$115,387,837 at December 31, 2010. Included in this decrease is the disposition of the County's Nursing Home, which had an approximately carrying value at March 2010 (date of sale) of \$5,183,000.

Long Term Debt

As of December 31, 2010, the County's net general obligation debt was \$218,509,597 net of related discount. This amount represents approximately 70% of the legal limit as calculated in 2010.

Economic Condition and Outlook

The County, during 2009, continued to closely monitor its debt portfolio. In 2010 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 County 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.

In December 2011, the County secured a \$21,000,000 unfunded debt borrowing. This amount will be used to pay the County's current liabilities and help stabilize the County's financial position.

In addition, the County's 2012 budget includes a 15 mil real estate tax increase. This increase will generate approximately \$19,300,000 in additional tax revenue for County operations.

The proceeds of this borrowing and the tax increase stabilize the County's finances and allows the County to continue to provide the services expected by its citizens.

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.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2010

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, 2010

	Governmental Activities	Component Units
Assets		
Current Assets:		
Cash and cash equivalents	\$ 11,065,773	\$ 13,531,026
Restricted cash		8,579,091
Investments	1,181,876	1,079,276
Restricted investments		19,338,308
Accounts receivable, net	510,826	125,851,712
Inventory	44,154	
Due from agency fund	1,531,774	
Due from other governments, net	8,810,383	2,206,815
Due from component units	839,022	
Taxes receivable, net	8,433,824	343,363
Other assets		567,116
Total current assets	32,417,632	171,496,707
Capital Assets, Net	115,387,837	71,612,753
Assets Held For Capital Projects	5,203,507	
Other Noncurrent Assets		1,791,955
Deferred Charges	10,941,472	
Total assets	<u>\$ 163,950,448</u>	<u>\$ 244,901,415</u>
Liabilities And Net Assets (deficit)		
Current Liabilities:		
Accounts payable	\$ 12,947,234	\$ 1,681,985
Accrued expenses	4,450,194	1,514,081
Current portion:		
Net pension obligation	4,801,039	
Bond and notes payable	4,739,710	1,753,284
Capital lease obligations	157,279	
Compensated absences	270,040	292,066
Due to component units	1,593,177	
Due to primary government		14,426,396
Deferred revenues	69,452	985,891
Escrow liability		19,626,229
Claims payable	1,644,287	
Total current liabilities	<u>30,672,412</u>	<u>40,279,932</u>
Noncurrent Liabilities:		
Bonds and notes payable	213,769,887	24,066,692
Capital lease obligation	627,811	
Nonrecourse debt issues		123,655,548
Net pension obligation	10,690,636	
Investment derivative - pay variable / receive variable basis swap	11,001,955	
Compensated absences	1,760,381	807,276
Total liabilities	<u>268,523,082</u>	<u>188,809,448</u>
Net Assets (deficit):		
Invested in capital assets, net of related debt	(67,353,373)	51,581,091
Restricted	3,177,533	9,819,846
Unrestricted	<u>(40,396,794)</u>	<u>(5,308,970)</u>
Total net assets (deficit)	<u>(104,572,634)</u>	<u>56,091,967</u>
Total liabilities and net assets (deficit)	<u>\$ 163,950,448</u>	<u>\$ 244,901,415</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement Of Activities

Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue And Changes In Net Assets	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Component Units
Primary Government:						
Governmental activities:						
General activities - administrative	\$ (19,762,120)	\$ 4,957,906	\$ 95,222		\$ (14,708,992)	
General government - judicial	(21,867,109)	7,833,747	1,281,021	\$ 575,000	(12,177,341)	
Public safety - corrections	(32,049,424)	13,728,784	219,144		(18,101,496)	
Public works and enterprises	(3,384,638)	81,742	2,326,651	2,021,067	1,044,822	
Health and human services	(43,954,470)	4,836,093	39,371,811	285,570	539,004	
Culture and recreation	(5,106,238)	2,121,440			(2,984,798)	
Community and economic development	(4,833,575)	305,250	2,378,073		(2,150,252)	
Unallocated depreciation	(3,813,485)				(3,813,485)	
Interest on long-term debt	(11,429,876)	-			(11,429,876)	
Total governmental activities	\$ (146,200,935)	\$ 33,864,962	\$ 45,671,922	\$ 2,881,637	(63,782,414)	
Component Units:						
Scranton Lackawanna Health and Welfare Authority	\$ (37,010,634)	\$ 71,486				\$ (36,939,148)
Lackawanna County Library System	(4,885,441)	250,000	\$ 1,096,240			(3,539,201)
Lackawanna County Redevelopment Authority	(202,396)		1,122,387			919,991
Lackawanna County River Basin Sewer Authority	(7,067,569)	8,182,779		\$ 2,959,581		4,074,791
County of Lackawanna Transit System Authority	(9,640,069)	1,014,957	6,958,793	167,530		(1,498,789)
Multi-Purpose Stadium Authority of Lackawanna County	(1,526,208)	125,000				(1,401,208)
Lackawanna County Performing Arts Center Authority	(903,928)	1,091,097				187,169
Total component units	\$ (61,236,245)	\$ 10,735,319	\$ 9,177,420	\$ 3,127,111		(38,196,395)
General revenues and transfers:						
Taxes levied for general purposes, net					\$ 54,157,934	\$ 4,021,206
Rental income						36,606,158
Interest revenue					183,444	577,823
Contributions and other revenue					235,407	1,196,901
Miscellaneous					476,107	
Change in fair value of investment derivative					(1,569,055)	
Swap termination fee					(10,182,500)	
Gain on sale of assets					6,446,683	
Total general revenues					49,748,020	42,402,088
Change in net assets					(14,034,394)	4,205,693
Net assets (deficit), beginning						
As previously reported					(81,105,340)	51,845,417
Effect of adoption of GASB 53					(9,432,900)	40,857
As restated					(90,538,240)	51,886,274
Net assets (deficit), ending					\$ (104,572,634)	\$ 56,091,967

See notes to financial statements

County Of Lackawanna, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2010

	General Fund	Health And Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Assets						
Cash and cash equivalents	\$ 3,924,352	\$ 2,620,144	\$ 1,643,412	\$ 2,252,226	\$ 2,872,670	\$ 13,312,804
Investments				2,951,281		2,951,281
Inventory					44,154	44,154
Due from other funds	2,723,161	426,313	210,425	8,566,907	832,372	12,759,178
Due from component units	14,718			824,304		839,022
Other receivables	195,998				314,828	510,826
Due from other governments, net	5,538,485	665,578	275,175	1,050,000	1,281,145	8,810,383
Taxes receivable, net	8,433,824					8,433,824
Total	<u>\$ 20,830,538</u>	<u>\$ 3,712,035</u>	<u>\$ 2,129,012</u>	<u>\$ 15,644,718</u>	<u>\$ 5,345,169</u>	<u>\$ 47,661,472</u>
Liabilities And Fund Balances (Deficit)						
Liabilities:						
Accounts payable	\$ 7,952,893	\$ 2,535,327	\$ 121,233	\$ 1,011,574	\$ 1,352,855	\$ 12,973,882
Accrued liabilities	1,395,539	126,630			123,809	1,645,978
Accrued pension	4,801,039					4,801,039
Due to other funds	9,092,453	241,061	376,864	830,094	687,075	11,227,547
Due to component units	1,144,948		297,447		150,782	1,593,177
Deferred revenue	7,810,875	69,452				7,880,327
Total liabilities	<u>32,197,747</u>	<u>2,972,470</u>	<u>795,544</u>	<u>1,841,668</u>	<u>2,314,521</u>	<u>40,121,950</u>
Fund Balances (deficit):						
Unreserved	(11,367,209)	739,565				(10,627,644)
Reserved			1,333,468	13,803,050	3,030,648	18,167,166
Total fund balances	<u>(11,367,209)</u>	<u>739,565</u>	<u>1,333,468</u>	<u>13,803,050</u>	<u>3,030,648</u>	<u>7,539,522</u>
Total	<u>\$ 20,830,538</u>	<u>\$ 3,712,035</u>	<u>\$ 2,129,012</u>	<u>\$ 15,644,718</u>	<u>\$ 5,345,169</u>	<u>\$ 47,661,472</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Reconciliation Of The Balance Sheet Of Governmental Funds
To The Statement Of Net Assets
December 31, 2010

Total Fund Balances - Governmental Funds		\$ 7,539,522
Amounts reported for governmental activities in the statement of net assets are different because:		
Net assets (deficit) of the Internal Service Fund are included in governmental activities since they primarily benefit the County's governmental activities.		(460,618)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in government funds.		115,387,837
Deferred revenue in the government fund balance sheet includes accounts receivable balances that were not considered a current resource.		7,810,875
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.		10,941,472
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and notes payable, net	\$ 218,509,597	
Net pension obligation	10,690,636	
Capital lease obligation	785,090	
Compensated absences	<u>2,030,421</u>	
		(232,015,744)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(11,001,955)
Accrued litigation claims		(190,000)
Accrued interest payable is included in the statement of net assets.		<u>(2,584,023)</u>
Total Deficit - Governmental Activities		<u>\$ (104,572,634)</u>

County Of Lackawanna, Pennsylvania

Statement Of Revenues, Expenditures, And Change In Fund Balances -
 Governmental Funds
 Year Ended December 31, 2010

	Major Funds					Total Governmental Funds
	General Fund	Health And Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Revenues:						
Taxes	\$ 54,237,593					\$ 54,237,593
Payments in lieu of taxes	249,337					249,337
Intergovernmental	20,310,313	\$ 23,867,994		\$ 2,596,067	\$ 6,737,289	53,511,663
Charges for service	17,580,102	3,927,343			6,041,880	27,549,325
Court costs, fines and forfeitures	9,390				988	10,378
Interest and rent	15,888	41,363	\$ 2,075	86,937	18,522	164,785
Contributions and other	7,138		476,107	100,284	181,155	764,684
Total revenues	92,409,761	27,836,700	478,182	2,783,288	12,979,834	136,487,765
Expenditures						
Current:						
General government- administrative	18,846,592		770,567	838	41,360	19,659,357
General government - judicial	18,285,804				2,861,555	21,147,359
Public safety and corrections	26,907,704				4,937,773	31,845,477
Public works and enterprises	132,250				2,286,853	2,419,103
Health and human services	16,637,405	26,617,510			286,380	43,541,295
Culture and recreation	2,543,064				2,568,271	5,111,335
Community and economic development	613,361				2,352,100	2,965,461
Miscellaneous expenses	761,591				2,898	764,489
Debt service:						
Principal			4,625,115			4,625,115
Interest			9,383,462			9,383,462
Capital outlay				6,265,193		6,265,193
Total expenditures	84,727,771	26,617,510	14,779,144	6,266,031	15,337,190	147,727,646
Other Financing Sources (uses):						
Bond proceeds			59,360,000			59,360,000
Transfer to bond refunding agent			(45,345,000)			(45,345,000)
Premium on bond issue			740,393			740,393
Bond issue costs			(4,616,893)			(4,616,893)
Swap termination fee			(10,182,500)			(10,182,500)
Proceeds from sale of assets, net		11,196,933				11,196,933
Transfers in	6,100,000		13,219,383	10,807,250	2,808,801	32,935,434
Transfers out	(15,644,891)	(10,807,250)	-	(6,100,000)	(569,521)	(33,121,662)
Total other financing sources (uses)	(9,544,891)	389,683	13,175,383	4,707,250	2,239,280	10,966,705
Excess (Deficiency) Of Revenues Over Expenditures	(1,862,901)	1,608,873	(1,125,579)	1,224,507	(118,076)	(273,176)
Fund Balances, Beginning	(9,504,308)	(869,308)	2,459,047	12,578,543	3,148,724	7,812,698
Fund Balances, Ending	\$ (11,367,209)	\$ 739,565	\$ 1,333,468	\$ 13,803,050	\$ 3,030,648	\$ 7,539,522

See notes to financial statements

County Of Lackawanna, Pennsylvania

Reconciliation Of The Statement Of Revenues, Expenditures And
Change In Fund Balance Of Governmental Funds To The Statement Of Activities
Year Ended December 31, 2010

Total Net Change In Fund Balances - Governmental Funds	\$ (273,176)
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.	680,548
Capital asset additions are reported as expenditures in the governmental funds.	5,046,878
Depreciation expense on capital assets is reported in the statement of activities.	(3,813,485)
Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities.	(4,750,248)
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.	(79,659)
Proceeds from the issuance of bonds payable are considered current financial resources and reported in the funds but not the statement of activities.	(59,360,000)
Repayment of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities.	49,970,115
Bond issue costs are reported as expenditures in the funds.	4,616,893
Amortization and write-offs of premiums and deferred refunding charges.	(728,173)
Amortization and write-offs of bond issue costs.	(543,831)
Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period.	(1,569,055)
Change in the net pension obligation.	(3,116,165)
Change in accrued litigation claims	(190,000)
Change in accrued interest on bonds payable.	(774,412)
Change in compensated absences.	<u>849,376</u>
Change In Net Assets Of Governmental Activities	<u>\$ (14,034,394)</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement Of Net Assets

Proprietary Fund

December 31, 2010

	<u>Internal Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 5,203
Due from other funds	143
Investments	<u>1,181,876</u>
Total	<u>\$ 1,187,222</u>
Liabilities And Net Deficit	
Current Liabilities:	
Accounts payable	\$ 3,553
Claims payable	<u>1,644,287</u>
Total current liabilities	1,647,840
Net Deficit,	
Unrestricted	<u>(460,618)</u>
Total	<u>\$ 1,187,222</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement Of Revenues, Expenses, And Change In Net Deficit -

Proprietary Fund

Year Ended December 31, 2010

	<u>Internal Service Fund</u>
Operating Revenues	
Charges for services	\$ 1,000,000
Operating Expenses	
Workers' compensation claims	361,508
Administrative	<u>192,239</u>
Total operating expenses	<u>553,747</u>
Operating Income	<u>446,253</u>
Nonoperating Revenues	
Interest income	48,067
Transfer in	<u>186,228</u>
Total nonoperating revenues	<u>234,295</u>
Net Income	680,548
Net Deficit, Beginning	<u>(1,141,166)</u>
Net Deficit, Ending	<u>\$ (460,618)</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement Of Cash Flows

Proprietary Fund

December 31, 2010

	<u>Internal Service Fund</u>
Cash Flows From Operating Activities:	
Cash received from users	\$ 1,000,000
Cash payments for goods and services	(1,134,766)
Cash payments for insurance claims	<u>(57,615)</u>
Net cash provided by operating activities	<u>(192,381)</u>
Cash Flows From Investing Activities:	
Interest income	48,067
Purchase of investments	(41,853)
Transfers in	<u>186,228</u>
Net cash provided by investing activities	<u>192,442</u>
Net Increase In Cash	61
Cash, Beginning	<u>5,142</u>
Cash, Ending	<u>\$ 5,203</u>
Reconciliation Of Operating Loss To Net	
Cash Provided By Operating Activities:	
Operating loss	\$ 446,253
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Increase or decrease in:	
Prepaid expenses	131,214
Due from other funds	(143)
Accounts payable	3,553
Claims payable	<u>(773,258)</u>
Net cash provided by operating activities	<u>\$ (192,381)</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement Of Fiduciary Net Assets

December 31, 2010

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 470,920	\$ 5,925,444	\$ 6,396,364
Accrued interest	538,381		538,381
Investments, at fair value:			
Federated money market funds	1,199,503		1,199,503
U.S. government securities	33,146,098		33,146,098
Tax exempt bonds	1,071,111		1,071,111
Corporate bonds	15,102,714		15,102,714
Common stocks	66,409,464		66,409,464
Mutual funds	13,027,558		13,027,558
Total investments	129,956,448		129,956,448
Total	\$ 130,965,749	\$ 5,925,444	\$ 136,891,193
Liabilities And Net Assets			
Liabilities			
Accrued fees	\$ 21,511		\$ 21,511
Escrow liabilities		\$ 4,393,670	4,393,670
Due to other funds		1,531,774	1,531,774
	21,511	5,925,444	5,946,955
Net Assets			
Held in trust for pension benefits	130,944,238		130,944,238
Total	\$ 130,965,749	\$ 5,925,444	\$ 136,891,193

See notes to financial statements

County Of Lackawanna, Pennsylvania
Statement Of Changes In Fiduciary Net Assets
Year Ended December 31, 2010

	Pension Trust Fund
Additions,	
Contributions:	
Plan members	\$ 3,859,609
Employer	<u>65,733</u>
Total contributions	<u>3,925,342</u>
Investment Income:	
Net appreciation in fair value of investments	10,050,537
Interest	1,597,198
Dividends	1,290,223
Investment expense	<u>(36,514)</u>
Net investment earnings	<u>12,901,444</u>
Total additions	<u>16,826,786</u>
Deductions:	
Benefits paid	5,708,411
Participant contributions refunded	2,330,421
Death benefits paid	116,577
Administrative expenses	<u>384,637</u>
Total deductions	<u>8,540,046</u>
Increase In Net Assets	8,286,740
Net Assets, Beginning	<u>122,657,498</u>
Net Assets, Ending	<u>\$ 130,944,238</u>

See notes to financial statements

County Of Lackawanna, Pennsylvania

Combining Balance Sheet -
Discretely Presented Component Units
December 31, 2010

	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		\$ 391,620	\$ 25,960	\$ 6,727,096	\$ 999,532	\$ 5,085,308	\$ 301,510	\$ 13,531,026
Restricted cash	\$ 305,396	-		193,631	8,079,878		186	8,579,091
Investments	1,079,276	-		-	-			1,079,276
Restricted investments	18,243,858	-		1,094,450	-			19,338,308
Due from other governments		-			1,947,322	259,493		2,206,815
Other receivables	123,655,548	62,711	175,845	1,774,914	91,595		91,099	125,851,712
Taxes receivable, net		343,363						343,363
Other current assets		458,671		50,639	54,593	3,213		567,116
Total current assets	143,284,078	1,256,365	201,805	9,840,730	11,172,920	5,348,014	392,795	171,496,707
Capital Assets Not Being Depreciated		50,000		-	59,475			109,475
Capital Assets, Net		946,272		40,409,812	4,946,533	18,167,835	7,032,826	71,503,278
Other Assets	13			569,267	79,744	1,142,931		1,791,955
Total	\$ 143,284,091	\$ 2,252,637	\$ 201,805	\$50,819,809	\$16,258,672	\$24,658,780	\$7,425,621	\$244,901,415
Liabilities:								
Current liabilities:								
Accounts payable		\$ 9,856		\$ 354,636	\$ 1,130,115	\$ 129,454	\$ 57,924	\$ 1,681,985
Accrued expenses	\$ 2,301				1,120,108	255,034	136,638	1,514,081
Current portion of long-term debt			\$ 701,075	487,209		145,000	420,000	1,753,284
Current portion of compensated absences				146,925	145,141			292,066
Due to primary government						14,001,221	425,175	14,426,396
Deferred revenue		819,224					166,667	985,891
Escrow liability	19,626,229							19,626,229
Total current liabilities	19,628,530	829,080	701,075	988,770	2,395,364	14,530,709	1,206,404	40,279,932
Long-term Debt			1,082,702	11,594,390		6,445,000	4,944,600	24,066,692
Compensated Absences		51,832		268,148	487,296			807,276
Nonrecourse Debt Issues	123,655,548	-						123,655,548
Total liabilities	143,284,078	880,912	1,783,777	12,851,308	2,882,660	20,975,709	6,151,004	188,809,448
Net Assets:								
Invested in capital assets, net of related debt		996,272		28,328,213	5,006,008	15,582,372	1,668,226	51,581,091
Restricted		451,700		1,288,081	8,079,879		186	9,819,846
Unrestricted	13	(76,247)	(1,581,972)	8,352,207	290,125	(11,899,301)	(393,795)	(5,308,970)
Total net assets	13	1,371,725	(1,581,972)	37,968,501	13,376,012	3,683,071	1,274,617	56,091,967
Total	\$ 143,284,091	\$ 2,252,637	\$ 201,805	\$50,819,809	\$16,258,672	\$24,658,780	\$7,425,621	\$244,901,415

See notes to financial statements

County Of Lackawanna, Pennsylvania

Combining Statement Of Revenues, Expenses And Change In Net Assets -
Discretely Presented Component Units
Year Ended December 31, 2010

	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	\$ 71,486	\$ 250,000		\$ 8,182,779	\$ 1,014,957	\$ 125,000	\$1,091,097	\$ 10,735,319
Real estate taxes		3,604,989						3,604,989
Tax incremental financing			\$ 416,217					416,217
Rental income	36,606,158							36,606,158
Interest income	332,990	2,430	8,294	142,383	87,361	3,132	1,233	577,823
Operating grants and contributions		1,096,240	1,122,387		6,958,793			9,177,420
Capital grants and contributions		-		2,959,581	167,530			3,127,111
Other		60,430	116,617	902,108	117,746			1,196,901
Total revenues	37,010,634	5,014,089	1,663,515	12,186,851	8,346,387	128,132	1,092,330	65,441,938
Expenses:								
Public works and enterprises		4,885,441		7,001,546	9,640,069			21,527,056
Culture and recreation							522,516	522,516
Operating expenses						585,934		585,934
Community and economic development			127,718					127,718
Debt service	37,010,634		74,678	66,023			381,412	37,532,747
Other	-					940,274		940,274
Total expenses	37,010,634	4,885,441	202,396	7,067,569	9,640,069	1,526,208	903,928	61,236,245
Change in Net Assets	-	128,648	1,461,119	5,119,282	(1,293,682)	(1,398,076)	188,402	4,205,693
Net Assets (deficit) Beginning:								
As previously reported	13	1,243,077	(3,043,091)	32,849,219	14,628,837	5,081,147	1,086,215	51,845,417
Restatement	-	-	-	-	40,857	-	-	40,857
As restated	13	1,243,077	(3,043,091)	32,849,219	14,669,694	5,081,147	1,086,215	51,886,274
Net Assets (deficit), Ending	\$ 13	\$ 1,371,725	\$ (1,581,972)	\$37,968,501	\$ 13,376,012	\$ 3,683,071	\$1,274,617	\$ 56,091,967

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies

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

Nature of Operations

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

Financial Reporting Entity

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

Government-Wide Financial Statements

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

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

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

The Health and Human Services Fund accounts for the provision of specified social services such as nursing home, aging, daycare, drug and alcohol treatment and prevention and medical transportation services. Activity of the nursing home is included through March 2, 2010, the date of sale of the nursing home.

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 County reports the following nonmajor governmental funds:

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

The County reports the following proprietary fund:

The Internal Service Fund provides services to other funds of the County on a cost-reimbursement basis. This fund is used to account for the County's self-insurance program for workers' compensation. Operating revenues consist of charges for insurance services. Operating expenses consist of payments made for workers' compensation claims and administrative costs. All other revenues and expenses are reported as nonoperating.

The County reports the following fiduciary funds:

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

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

Budgetary Data

In accordance with provisions of Section 1782 of Public Law No. 323, as amended, of the Commonwealth of Pennsylvania, commonly known as the County Code, the County prepares and adopts a budget on or before December 31 for the following fiscal year. Budgets are prepared on a 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.

New Accounting Principle

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Financial Instruments* during the year ended December 31, 2010. GASB No. 53 enhances the usefulness and comparability of derivative instrument information reported by governments by providing a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The effect of this adoption decreased the net assets of the governmental activities at January 1, 2010 by \$9,432,900.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Cash and Cash Equivalents

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

Investments

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

Taxes Receivable

All property tax receivables are shown net of an allowance for uncollectible accounts. The property tax receivable allowance is calculated based on collection history and was approximately \$8,500,000 at December 31, 2010.

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:

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

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 life of the related obligation.

Escrow Liabilities

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

Compensated Absences

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

Derivative Financial Instrument

The County has entered into a variable-to-variable basis swap, which is considered an investment derivative instrument, related to its General Obligation Bonds, Series B of 2010 (Note 7). The fair value of the derivative is recorded as a liability within the Statement of Net Assets.

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 activities have been eliminated in the government-wide financial statements.

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.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Application of FASB Pronouncements

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

Allocation of Indirect Expenses

The County does not allocate any indirect expenses including depreciation.

Use of Estimates

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

2. Reporting Entity

In accordance with the guidance contained in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, the County has evaluated all related entities (authorities, commissions, and affiliates) for the possible inclusion in the financial reporting entity.

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

Blended Component Unit

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

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Discretely Presented Component Units

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

- The Scranton Lackawanna Health and Welfare Authority ("SLHWA") acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System ("LCLS") oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.
- The Lackawanna County Redevelopment Authority ("LCRA") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the LCRA.
- The Lackawanna County River Basin Sewer Authority ("LCRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LCRBSA. The County has also guaranteed the long-term debt of the LCRBSA.
- The County of Lackawanna Transit System Authority ("COLTS") operates the County's mass transit system. The County Commissioners appoint the governing board of COLTS. 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, 2010.
- 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 \$13,372,157 of 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, 2010 was approximately \$6,600,000.

Related Organizations

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

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

Joint Ventures

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

- Wilkes-Barre/Scranton International Airport ("Airport"). A joint venture with the County of Luzerne, the 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 2010, the County did not provide operating or capital funding to the Airport. In addition, the County loaned the Airport \$900,000 for completion of the new terminal at the Airport in 2004, which is still outstanding at December 31, 2010. The County has included a net investment in Airport of approximately \$2,840,000 in its capital assets at December 31, 2010.
- Lackawanna Susquehanna Mental Health / Mental Retardation Program. A joint venture with the County of Susquehanna, the commissioners of each county appoint members of the governing board. The County has no equity interest in this joint venture but does provide an annual match of funds. The Commonwealth of Pennsylvania primarily funds the joint venture.

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

3. Deposits with Financial Institutions and Investments

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

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

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

Deposits with Financial Institutions

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a policy for custodial credit risk. At December 31, 2010, the bank balance of the County's deposits with financial statements, including cash equivalents, was \$18,117,652 compared to the carrying amount of \$19,714,371. The difference is caused by items in-transit and outstanding checks. \$15,410,504 of the County's deposits was exposed to custodial credit risk and was uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Investments

As of December 31, 2010, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

Governmental Funds	Maturities	Fair Value
Capital Projects Fund:		
U.S. government agency	1-10 years	\$ 483,399
Money market funds	N/A	1,430,461
Certificates of deposit	1-5 years	1,037,421
Total		2,951,281
Internal Service Fund:		
U.S government agency	1-10 years	1,174,903
Money market funds	N/A	6,973
Total		1,181,876
Total governmental funds		\$ 4,133,157
Pension Trust Fund	Maturities	Fair Value
Common stock	N/A	\$ 53,836,084
U.S. government obligations	6-30 years	33,146,098
Mutual funds	N/A	25,600,938
Corporate bonds	1-30 years	16,173,825
Money market	N/A	1,199,503
Total		\$ 129,956,448

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, 2010, no one issuer totaled more than five percent of the Pension Trust Fund's net assets. The Pension Trust Fund's investment policy requires all bonds to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County's investments in debt securities of the Governmental funds had the following credit risk at December 31, 2010:

Investment	S&P Rating	%
U.S government obligations	AA+	100.00 %

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2010:

Investment	S&P Rating	%
U.S government obligations	AA+	67.21
Corporate bonds	Aaa	7.10
Corporate bonds	Aa1	2.17
Corporate bonds	Aa2	1.16
Corporate bonds	Aa3	1.69
Corporate bonds	A1	4.68
Corporate bonds	A2	10.86
Corporate bonds	A3	2.08
Corporate bonds	Baa1	1.69
Corporate bonds	Baa2	1.36
Total		100.00 %

4. Real Estate Taxes

The total tax on real estate in 2010 was 39.998 mills (\$0.039998 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 mill was levied for culture and education fund purposes. Amounts collected for library services are remitted to the Lackawanna County Library System.

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

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

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

Delinquent real estate taxes receivable at December 31, 2010 were approximately \$17,000,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$8,500,000.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

5. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2010, was as follows:

	January 1, 2010	Acquisitions	Disposals	Transfer	December 31, 2010
Capital assets not being depreciated					
Land	\$ 3,531,702	\$ 1,533	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	<u>2,021,951</u>	<u>2,745,454</u>	<u>(272,572)</u>	<u>(929,307)</u>	<u>3,565,526</u>
Total capital assets, not being depreciated	<u>5,553,653</u>	<u>2,746,987</u>	<u>(272,572)</u>	<u>(929,307)</u>	<u>7,098,761</u>
Capital assets being depreciated					
Buildings and improvements	119,209,124	1,099,023	(10,766,054)	929,307	110,471,400
Machinery and equipment	36,068,484	738,892	(1,084,328)	-	35,723,048
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	35,319,435	461,976	-	-	35,781,411
Investment in Airport	<u>8,727,567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,727,567</u>
Total capital assets, being depreciated	<u>200,747,935</u>	<u>2,299,891</u>	<u>(11,850,382)</u>	<u>929,307</u>	<u>192,126,751</u>
Less accumulated depreciation for					
Buildings and improvements	(24,527,263)	(2,673,731)	4,522,644	-	(22,678,350)
Machinery and equipment	(28,833,338)	(2,414,006)	1,738,327	-	(29,509,017)
Equipment under capital lease	(402,764)	(94,888)	-	-	(497,652)
Infrastructure	(28,577,145)	(245,158)	555,270	-	(28,267,033)
Investment in Airport	<u>(5,056,386)</u>	<u>1,614,298</u>	<u>556,465</u>	<u>-</u>	<u>(2,885,623)</u>
Total accumulated depreciation	<u>(87,396,896)</u>	<u>(3,813,485)</u>	<u>7,372,706</u>	<u>-</u>	<u>(83,837,675)</u>
Net capital assets being depreciated	<u>113,351,039</u>	<u>(1,513,594)</u>	<u>(4,477,676)</u>	<u>929,307</u>	<u>108,289,076</u>
Governmental activities capital assets, net	<u>\$ 118,904,692</u>	<u>\$ 1,233,393</u>	<u>\$ (4,750,248)</u>	<u>\$ -</u>	<u>\$ 115,387,837</u>

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

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At December 31, 2010, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$3,565,526, which is included in construction in progress at December 31, 2010. The County is committed to additional costs of approximately \$915,000 related to these projects.

In March 2010, the County sold its nursing home to Millenium Management LLC for \$13,400,000, with the County netting approximately \$10,320,000 after due diligence costs. As part of this transaction, the County sold all of the capital assets which had an approximate net book value of \$5,183,000 at the date of sale. The County recognized a gain on sale of approximately \$6,447,000 within its statement of activities.

6. Long-Term Obligations

Description	January 1, 2010	Additions	Refunding	Payments	December 31, 2010	Current Portion
Taxable General Obligation Bonds, Series B of 1999	\$ 820,000	\$ -	\$ (820,000)	\$ -	\$ -	\$ -
General Obligation Bonds, Series A of 2002	6,020,000	-	-	-	6,020,000	-
General Obligation Bonds, Series A of 2004	6,490,000	-	-	(1,090,000)	5,400,000	1,135,000
Taxable General Obligation Bonds, Series C of 2004	3,455,000	-	-	(440,000)	3,015,000	455,000
General Obligation Bonds, Series D of 2004	11,115,000	-	-	(2,050,000)	9,065,000	2,130,000
General Obligation Bonds, Series A of 2007	14,225,000	-	-	-	14,225,000	-
General Obligation Bonds, Series B of 2007	18,065,000	-	-	(40,000)	18,025,000	45,000
General Obligation Notes, Series A of 2008	44,530,000	-	-	(5,000)	44,525,000	5,000
General Obligation Notes, Series B of 2008	44,530,000	-	(44,525,000)	(5,000)	-	-
General Obligation Notes, Series D of 2008	13,858,652	-	-	-	13,858,652	-
General Obligation Bonds, Series E of 2008	17,960,000	-	-	(830,000)	17,130,000	880,000
Taxable General Obligation Bonds, Series A of 2009	7,365,000	-	-	(10,000)	7,355,000	10,000
General Obligation Notes, Series B of 2009	26,490,000	-	-	(5,000)	26,485,000	5,000
Taxable General Obligation Notes, Series A of 2010	-	820,000	-	-	820,000	24,710
General Obligation Bonds, Series B of 2010	-	58,540,000	-	-	58,540,000	50,000
Total	\$ 214,923,652	\$ 59,360,000	\$ (45,345,000)	\$ (4,475,000)	\$ 224,463,652	\$ 4,739,710
Bond premiums, discounts and deferred refunding	(5,066,292)	(1,285,323)	-	397,560	(5,954,055)	-
	<u>\$ 209,857,360</u>	<u>\$ 58,074,677</u>	<u>\$ (45,345,000)</u>	<u>\$ (4,077,440)</u>	<u>\$ 218,509,597</u>	<u>\$ 4,739,710</u>

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

Governmental Activities

During 1999, the County issued \$5,225,000 of taxable general obligation bonds (Series B of 1999) to fund construction of an amphitheatre. These bonds are due in varying annual installments plus interest at rates ranging from 6.30%, with final maturity scheduled for 2019. In 2002, the County transferred \$4,000,000 of the bonds to the Lackawanna County Performing Arts Center Authority, a component unit of the County. These bonds were advance refunded during 2010 through issuance of the County's General Obligation Bonds, Series A of 2010. Advance funding was paid to the paying agent which defeased the bonds in April 2010.

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 4.650% 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, consisting of the principal payments due in 2008 through 2012 and 2014. There is no principal due in 2011.

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 4.00% to 5.00%, with final maturity scheduled for 2015. Principal due in 2011 is \$1,135,000.

During 2004, the County issued \$4,210,000 of taxable general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments to begin in 2008 plus interest at rates ranging from 4.50% to 5.35%, with final maturity scheduled for 2019. Principal due in 2011 is \$455,000.

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, 2010), with final maturity scheduled for 2014. Principal due in 2011 is \$2,130,000.

During 2007, the County issued \$21,090,000 of general obligation bonds (Series A of 2007) to finance various capital projects. The bonds are due in varying annual installments plus interest at rates ranging from 3.65% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009, consisting of the principal payments due in 2009 through 2017. There is no principal due in 2011.

During 2007, the County issued \$33,735,000 of general obligation bonds (Series B of 2007) to currently refund all or a portion of the Series A of 2004, Series B of 2004, and Series B of 1999 bond issues. The bonds are due in varying annual installments plus interest at rates ranging from 3.75% to 5.00%, with final maturity scheduled for 2029. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009. Principal due in 2011 is \$45,000.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

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 (0.69% at December 31, 2010 for Series A) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 general obligation bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction during 2008. Advance refunding of the 2008 C Bond was paid to the paying agent which defeased the bond in June 2009. The Series B bonds were advance refunded in October 2010. Advance funding was paid to the paying agent which defeased the Series B bonds in October 2010. Principal due in 2011 on the Series A 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. There is no principal due in 2011 on the Series D Bonds. 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 2011 on the Series E bonds is \$880,000.

During 2009, the County issued \$7,375,000 (Series A of 2009) of taxable general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series C of 2008 general obligation bonds. The bonds are due in varying annual installments plus interest at rates ranging from 7.00% to 7.25% with final maturity scheduled for October 2029. Principal due in 2011 is \$10,000.

During 2009, the County issued \$26,495,000 (Series B of 2009) of general obligation notes. The proceeds of the notes were used to advance refund a portion of the County's Series A and B of 2007 bonds. The notes are due in varying annual installments plus interest at rates ranging from 5.65% to 6.00% with final maturity scheduled for September 2034. Principal due in 2011 is \$5,000.

During 2010, the County issued \$3,319,000 (Series A of 2010) of taxable general obligation notes. The proceeds of the notes were used to currently refund the County's Series B of 1999 general obligation bonds and to pay the costs of issuance. The notes are due in varying annual installments plus interest at a rate of 4.94%, with final maturity scheduled for February 2019. Of the \$3,319,000 borrowing, \$2,499,000 related to funds that were loaned to the Lackawanna County Performing Arts Center Authority, and \$820,000 related to County projects. Principal due in 2011 on the County's share of this borrowing is \$24,710. This refunding resulted in a net economic gain and positive cash flow difference of approximately \$308,000.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

During 2010, the County issued \$58,540,000 (Series B of 2010) of general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series 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 1.50% to 5.00%, with final maturity scheduled for September 2035. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 Series A & B general obligation bonds and paid approximately \$10,183,000 upon termination from the proceeds of its Series B of 2010 general obligation bonds. Principal due in 2011 is \$50,000. This refunding resulted in a net economic loss of approximately \$12,200,000 and a negative cash flow difference of approximately \$31,700,000.

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

Interest paid on these bonds and notes during the year ended December 31, 2010 amounted to \$9,383,462.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, net of the effect of the interest rate swaps (Note 7), as of December 31, 2010. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,739,710	\$ 8,890,093	\$ 13,629,803
2012	4,903,317	9,017,947	13,921,264
2013	5,040,197	8,896,106	13,936,303
2014	5,246,716	8,684,251	13,930,967
2015	4,772,262	9,139,499	13,911,761
2016 – 2020	29,417,215	44,344,102	73,761,317
2021 – 2025	41,729,235	39,980,554	81,709,789
2026 – 2030	59,670,000	22,726,405	82,396,405
2031 – 2035	68,945,000	8,531,665	77,476,665
Total	<u>\$ 224,463,652</u>	<u>\$ 160,210,622</u>	<u>\$ 384,674,274</u>

County Of Lackawanna, Pennsylvania

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Defeased Debt

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities or securities collateralized by U.S. government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. At December 31, 2010, the amount of defeased bonds outstanding was \$44,310,000.

At December 31, 2010 bonds outstanding are considered defeased as follows:

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2010</u>
General Obligation Bonds, Series A of 1999	2022	\$ 16,645,000
General Obligation Bonds, Series A of 2002	2014	2,230,000
General Obligation Bonds, Series A of 2007	2017	5,540,000
General Obligation bonds, Series B of 2007	2022	13,160,000
General Obligation Notes, Series C of 2008	2029	<u>6,735,000</u>
Total		<u>\$ 44,310,000</u>

Discretely Presented Component Unit

The following is a summary of long-term debt for the discretely presented component units at December 31, 2010:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying semiannual installments plus interest at 7.5%, maturing 2011	\$ 434,261
Term note, due in varying semiannual installments plus interest at 6.5%, maturing 2013	<u>1,349,516</u>
Total	<u>\$ 1,783,777</u>

County Of Lackawanna, Pennsylvania

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Lackawanna River Basin Sewer Authority

PennVEST note, due in monthly installments of \$17,432 including interest at 1%; maturing 2011	\$ 52,209
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through August 2012) and matures in August 2032	1,212,559
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through September 2012) and matures in September 2032. Reported net of unamortized bond premium and issuance costs of \$146,863	8,896,831
Sewer Revenue Bonds, Series of 2009, due in varying installments with interest payable semiannually at rates ranging from 1.00% to 2.75%; maturing 2015	<u>1,920,000</u>
Total	<u>12,081,599</u>

Lackawanna County Performing Arts Center Authority

General obligation bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.875% to 7.000%; final maturity scheduled for 2018. Reported net of unamortized discount of \$15,400	2,484,600
General obligation bonds, Series B of 2002, due in varying annual installments plus interest at rates ranging from 2.65% to 6.85%; final maturity scheduled for 2020.	<u>2,880,000</u>
Total	<u>5,364,600</u>

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 commencing January 2011 at a variable interest rate equivalent to the One Month LIBOR plus 340 basis points at 65% plus 14 basis points. The rate at December 31, 2010 was 2.52%	<u>6,590,000</u>
	<u>\$ 25,819,976</u>

County Of Lackawanna, Pennsylvania

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

<u>Years ending December 31,</u>	<u>Amount</u>
2011	\$ 1,753,284
2012	1,438,142
2013	2,352,720
2014	1,605,592
2015	1,223,916
2016 – 2020	5,536,762
2021 – 2025	3,892,470
2026 – 2030	4,193,546
2031 – 2035	<u>3,985,807</u>
Total	25,982,239
Less unamortized discount	<u>(162,263)</u>
Total	<u>\$ 25,819,976</u>

Scranton Lackawanna Health and Welfare Authority

The Scranton Lackawanna Health and Welfare Authority ("SLHWA") has entered into lease, sublease and guarantee agreements for facilities being financed through the issuance of bonds by SLHWA. SLHWA leases the facilities, limited to the project, from the various entities for a fixed rental amount equal to the proceeds from the sale of the bonds. SLHWA subleases the facilities back to the various entities for periodic lease payments in amounts sufficient to pay principal and interest on the bonds when due, the redemption premium, if any, and to pay all expenses and fees of SLHWA and trustee, if applicable, as related to the bonds. Accordingly, future lease payments due over the remaining terms of the leases (net of the portion applicable to interest) have been reflected as a receivable in SLHWA's balance sheet. The facilities revert to the lessee upon full and final payment of the bonds, and expiration of the lease. Accordingly, the cost of the facilities acquired with proceeds of bond issues has not been capitalized in the financial statements of SLHWA. SLHWA has executed a trust indenture with a trustee bar of SLHWA's rights, title and interest in the facilities under the various bond agreements.

SLHWA, as a result of the assignments, has no ongoing obligation for the debt but has chosen to include the debt and the related future rental receivable in its financial statements. As of December 31, 2010, there were five general obligation bond issues outstanding and nine notes and mortgages outstanding with an aggregate balance of \$141,899,406.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2010

7. Derivative Financial Instrument – Basis Swap

Objective of the Basis Swap

The County entered into a variable-to-fixed interest rate swap transaction in connection with the issuance of its General Obligation Notes, Series A & B of 2008 (the “2008 Notes”). Subsequent to issuance, the County amended the 2008 Swap with the purpose of hedging the 2008 Notes. Included with the issuance of the County’s General Obligation Bonds, Series B of 2010, is an amendment to the 2009 Swap to provide a variable-to-variable basis swap, to cash settle a portion of the 2009 Swap and relate the 2010 Swap to the 2010 Series B Bonds with the purpose of managing the interest rate payments on the 2010 Bonds.

Terms

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

Fair Value

At December 31, 2010, the swap had a negative fair value of \$11,001,955, which is reported as investment derivative – pay variable / receive variable basis swap in the governmental activities section of the statement of net assets. Changes in the fair value are reported as investment income in the governmental activities section of the statement of activities.

Credit Risk

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

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

County Of Lackawanna, Pennsylvania

Notes to Financial Statements
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Interest Rate Risk

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

Basis Risk

The County is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At December 31, 2010, the associated debt used the LIBOR index and the counterparty’s payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

Termination Risk

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

In light of recent debt rating declines of the County, a risk of a Swap Agreement Termination exists related to the 2010 Swap Agreement. Potential termination events included in the 2010 Swap agreement include default or a decrease in credit rating of either the County or the counterparty.

8. Capital Lease Payable

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

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

Balance, January 1, 2010	\$ 935,205
Decrease	<u>(150,115)</u>
Balance, December 31, 2010	785,090
Less current portion	<u>157,279</u>
Long-term portion of capital lease payable	<u><u>\$ 627,811</u></u>

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

County Of Lackawanna, Pennsylvania

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The following is a summary of future minimum lease payments required under the capital leases along with the present value of the net minimum lease payments as of December 31, 2010:

Years ending December 31	
2011	\$ 190,617
2012	190,617
2013	190,617
2014	190,617
2015	<u>111,193</u>
Total minimum lease payments	873,661
Less amounts representing interest	<u>88,571</u>
Present value of net minimum lease payments	<u>\$ 785,090</u>

Total interest paid on this capital lease in 2010 was \$40,502.

9. Compensated Absences

The changes in the County's compensated absences in 2010 are summarized as follows:

Balance, January 1, 2010	\$ 2,879,797
Increase	1,512,560
Decrease	<u>(2,361,936)</u>
Balance, December 31, 2010	2,030,421
Less current portion	<u>270,040</u>
Long-term compensated absences	<u>\$ 1,760,381</u>

The County pays its compensated absences from the General Fund.

County Of Lackawanna, Pennsylvania

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10. Pension Plans

Plan Description

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

Membership of the Plan consisted of the following at December 31, 2010, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	\$	561
Terminated plan members entitled to but not yet receiving benefits		217
Active plan members		<u>1,098</u>
Total		<u>1,876</u>
Number of participating employers		<u>1</u>

Prior to December 31, 1987, as a condition of employment, each employee of Lackawanna County was required to contribute 7% of their salary to the Plan. As of January 1, 1988, each new employee is required to contribute eight percent (8%) of their salary to the Plan. Members in the Plan prior to January 1, 1988 may continue to contribute seven percent (7%) or elect the option to contribute eight percent (8%). The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contributions requirements of the plan members and the County are established and may be amended by the general Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings.

The annual pension cost was \$4,270,343, the annual required contribution ("ARC") was \$4,801,039, the interest on the net pension obligation was \$846,530 and the ARC adjustment was \$1,377,226 which are based on an actuarial valuation using the entry age method. The County made contributions to the plan during 2010 of \$65,733.

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.

County Of Lackawanna, Pennsylvania

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Historical trend information for the Plan is presented below:

	<u>Annual Pension Cost (APC)</u>	<u>County Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/08	\$ 1,707,660	\$ -	0%	\$ 7,949,561
12/31/09	3,712,594	-	0%	11,287,065
12/31/10	4,801,039	65,733	1.4%	15,491,675

Information regarding the Plan can be obtained from the County.

11. Deficit Fund Balances

The General Fund has a net deficit of \$11,367,209 at December 31, 2010. 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. In addition, the County intends to issue an unfunded debt obligation (Note 17), and significantly increase general real estate taxes to provide funds to cover past operating losses.

The individual non-major funds that had net deficit balances at December 31, 2010 were the Liquid Fuels Fund \$202,025, Clerks Automation Fund \$1,272, Retail Sales \$123,443 and the Help America Vote Act Fund \$15,265. 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, 2010 are reflecting only that the General Fund had not yet provided those funds with subsidies to offset those deficits.

The Internal Service Fund has a net deficit of \$460,618 at December 31, 2010. This deficit results from the County electing only to fund the minimum asset reserve required by the Commonwealth of Pennsylvania for self-insured entities.

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of \$1,581,972 at December 31, 2010. The deficit resulted from the financing of the PEI Power Park and Taylor Commons infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Redevelopment Authority anticipates the deficit to be substantially eliminated by the year 2013 when the notes mature.

12. Self Insurance

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

County Of Lackawanna, Pennsylvania

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

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

Changes in the balance of claims liabilities in 2010 are as follows:

Balance, January 1, 2010	\$ 2,417,545
Claims incurred	361,508
Claims paid	<u>(1,134,766)</u>
Balance, December 31, 2010	<u>\$ 1,644,287</u>

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

13. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2010 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 2,723,161	\$ 9,092,453
Health and Human Services Funds	426,313	241,061
Debt Service Fund	210,425	376,864
Capital Projects Fund	8,566,907	830,094
Non-Major Funds	832,372	687,075
Internal Service Fund	143	-
Agency Fund	-	<u>1,531,774</u>
Total	<u>\$ 12,759,321</u>	<u>\$ 12,759,321</u>

The amounts due to the General Fund are generally for payroll. In addition, at December 31, 2010, the General Fund owed the Capital Projects Fund \$8,000,000 for operating subsidy funds borrowed from unexpended bond proceeds to meet operating cash flow during 2010. All of these items are expected to be repaid in 2011.

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Interfund transfers in 2010 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Debt Service Fund	\$ -	\$ 12,649,862
Capital Projects Fund	6,100,000	-
Non-Major Funds	-	2,808,801
Internal Service Fund	-	186,228
Total General Fund	<u>6,100,000</u>	<u>15,644,891</u>
Health and Human Services Fund, Capital Projects Fund	<u>-</u>	<u>10,807,250</u>
Debt Service Fund:		
General Fund	12,649,862	-
Non-Major Funds	569,521	-
Total Debt Service Fund	<u>13,219,383</u>	<u>-</u>
Capital Projects Fund:		
General Fund	-	6,100,000
Health and Human Services Fund	10,807,250	-
Total Capital Projects Fund	<u>10,807,250</u>	<u>6,100,000</u>
Non-Major Funds:		
General Fund	2,808,801	-
Debt Service Fund	-	569,521
Total Non-Major Fund	<u>2,808,801</u>	<u>569,521</u>
Proprietary Fund, Internal Service Fund	<u>186,228</u>	<u>-</u>
Totals	<u>\$ 33,121,662</u>	<u>\$ 33,121,662</u>

Transfers in to the General Fund from the Capital Projects Fund were made to provide an operating subsidy for the General Fund in the amount of \$3,100,000 from the sale of the County's Nursing Home during 2010 and to utilize \$3,000,000 of unexpended bond proceeds for current year debt service. Transfers out by the General Fund were primarily for debt service and operational costs.

Transfers out of the Health and Human Service Fund (\$10,807,250) to the Capital Projects Fund are to transfer the net proceeds from the sale of the County's Health Care Center to for future use within the County, either in the form of operating subsidies to the General Fund in 2010 (\$3,100,000) and 2011 or for funding certain capital projects for the good of the County from the release of prior debt proceeds.

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Transfers in to the Debt Service Fund (\$13,219,383) were primarily used for debt service payments.

Transfers in to the Non-Major Funds were primarily used for operational costs of the Domestic Relations (\$600,000), Community Development Block Grant (\$160,000), Emergency 9-1-1 (\$758,622), Clerks Automation (\$29,233) and Culture and Recreation (\$1,260,946) Funds. In addition, transfers out of the Non-Major Funds were used primarily to record the transfer of Hotel Rental Tax revenues (\$540,288) to cover debt service payments and for operational costs subsidized by the Prothonotary's Fund (\$29,233).

Due From/To Component Units

At December 31, 2010, the County owed COLTS \$1,144,948 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2010, the amounts shown in the financial statements do not agree.

The County has advanced \$13,372,157 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.

14. Contingencies

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

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

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.

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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 17), the MPSA expects to set aside one-half of the sale proceeds until final disposition of this matter.

15. Concentration Of Labor

At December 31, 2010, approximately 71% of the County's employees are represented by unions, whose existing labor agreements expire on December 31, 2012 and December 31, 2013.

16. 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.

17. Subsequent 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.

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.

County Of Lackawanna, Pennsylvania

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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.

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 November 2011, but is expected to be finalized in 2012.

In connection with the issuance of the County's General Obligation Bonds, Series A and B of 2008, the County entered into a standby note purchase agreement with Dexia Credit Local, New York Branch ("Dexia") to provide a liquidity facility for the bonds. Such agreement, barring extension or earlier termination, is set to expire on July 24, 2011. During 2011, Dexia notified the County that it would not be renewing the standby note purchase agreement at expiration.

In October 2011, Moody's downgraded the County's bond ratings from Baa1 to Ba3 on approximately \$203,000,000 of outstanding general obligation bonds and the rating remains under review for downgrade or withdrawal. The downgrade reflects significant and rapid deterioration in the County's financial position – following several years of persistent deficits, structural budget deficits, an \$8,000,000 outstanding tax anticipation note and the failure to provide, on a timely basis, audited financial statements for the County. This downgrade exposes approximately \$11,000,000 of outstanding debt to immediate call by bond holders. In addition, because of the downgrade, the County's Swap Agreement with PNC Bank, NA (the "Bank") is technically in default and subject to immediate termination. Such termination would cost the County approximately \$12,000,000. The Bank has notified the County that it will refrain from declaring an early termination date if the County completes the following steps:

- On or before December 31, 2011, the County shall adopt a balanced budget for calendar year 2012;
- On or before December 31, 2011, the County shall deliver, or cause to be delivered an unqualified audit with respect to the County's financial operations for the year ended December 31, 2010;
- On or before December 31, 2011, the County shall refund the Tax Anticipation Note and in connection therewith, if the County determines it to be necessary to do so, will obtain approval from the Court of Common Pleas of Lackawanna County pursuant to the provisions of the Pennsylvania Local Government Unit Debt Act to issue unfunded debt for such purpose to mature on a level debt service basis over a period of ten years from the date of issuance of such unfunded debt;
- On or before December 31, 2011, the Swap Transaction shall be amended to:
 - Modify the payment of interest to monthly and the optional termination by the Bank to terminate the Swap Transaction in whole or in part without cause on March 14, 2012 and at each following six month period;
 - The County covenants to provide the bank with monthly cash flow statements and monthly reports of actual real estate tax collections beginning on February 15, 2012 and the 15th of each following month; and,

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- On or before December 31, 2011, the County shall pay the Bank a forbearance fee in the amount of \$30,000.

In December 2011, the County issued \$21,000,000 (Series A of 2011) general obligation notes. The proceeds of the notes were used to finance unfunded debt of the County, including certain outstanding obligations of the current and prior years. These notes are due in varying installments of principal and interest at a fixed rate of 4.75% per annum, with final maturity scheduled for 2021.

18. New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The County is required to adopt Statement No. 54 for its calendar year 2011 financial statements.

In June 2010, the GASB issued Statement No. 59, Financial Instruments Omnibus. This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 is effective for the County's calendar year 2011 financial statements.

In December 2010, the GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements ("SCA"). This statement addresses how to account for and report situations where a government engages another entity to operate a major capital asset on its behalf. This statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferor's and governmental operators. To the extent applicable, the County is required to adopt Statement No. 60 for its calendar year 2012 financial statements.

In December 2010, the GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus. This statement addresses certain issues with distinguishing a government's control over another government in the reporting of component units. The County is required to adopt Statement No. 61 for its calendar year 2013 financial statements.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates certain applicable accounting and financial reporting guidance of the FASB and AICPA into GASB literature to simplify the preparation of state and local government financial statements. The County is required to adopt Statement No. 62 for its calendar year 2012 financial statements.

In July 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The County is required to adopt Statement No. 63 for its calendar year 2012 financial statements.

County Of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2010

In July 2011, the GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. To the extent applicable, the County is required to adopt Statement No. 64 for its calendar year 2012 financial statements.

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

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
 Year Ended December 31, 2010

	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	\$ 41,069,291	\$ 42,873,548	\$ 1,804,257				\$ 12,382,256	\$ 11,383,945	\$ (998,311)
Payments in-lieu of taxes	239,500	249,337	9,837						
Grants	21,996,938	23,269,142	1,272,204	\$ 1,641,496	\$ 1,895,264	\$ 253,768			
Charges for services	18,964,594	17,501,104	(1,463,490)						
Interest and rent	382,000	15,888	(366,112)	6,957	297	(6,660)	20,000	2,075	(17,925)
Fines and forfeits	2,500	9,390	6,890						
Contributions and other	116,750	7,138	(109,612)	3,748	78,451	74,703	1,686,812	476,107	(1,210,705)
Total receipts	82,771,573	83,925,547	1,153,974	1,652,201	1,974,012	321,811	14,089,068	11,862,127	(2,226,941)
Disbursements:									
General government - administrative	18,532,875	17,890,970	641,905					433,733	(433,733)
General government - judicial	17,215,057	18,285,804	(1,070,747)						
Public safety	27,289,052	26,907,704	381,348						
Public works	133,326	132,250	1,076	2,237,207	2,255,976	(18,769)			
Human services	17,343,154	16,637,405	705,749						
Culture and recreation	2,452,021	2,543,064	(91,043)						
Conservation and development	378,615	613,361	(234,746)						
Miscellaneous expense	925,225	591,022	334,203						
Debt service:									
Principal							4,685,115	4,625,115	60,000
Interest							10,417,531	9,173,037	1,244,494
Total disbursements	84,269,325	83,601,580	667,745	2,237,207	2,255,976	(18,769)	15,102,646	14,231,885	870,761
Excess (Deficiency) Of Receipts Over Disbursements	(1,497,752)	323,967	1,821,719	(585,006)	(281,964)	303,042	(1,013,578)	(2,369,758)	(3,383,336)
Other Financing Sources (Uses):									
Bond proceeds, net								59,360,000	59,360,000
Transfer to bond refunding agent								(45,345,000)	(45,345,000)
Premium on bond issue								740,393	740,393
Bond issue costs								(4,616,893)	(4,616,893)
Swap termination fee								(10,182,500)	(10,182,500)
Transfers in	3,100,000	6,100,000	3,000,000				1,343,194	2,001,877	658,683
Transfers out		(7,093,649)	(7,093,649)	(115,733)	(115,733)	(115,733)			
Total other financing sources (uses), net	3,100,000	(993,649)	(4,093,649)	(115,733)	(115,733)	(115,733)	1,343,194	1,957,877	658,683
Excess (Deficiency) Of Receipts And Other Financing Sources Over Disbursements And Other Financing Sources	1,602,248	(669,682)	(2,271,930)	(700,739)	(397,697)	303,042	329,616	(411,881)	(741,497)
Fund Balance, Beginning	108,892	3,087,809	2,978,917	142,948	404,898	261,950	(163,775)	2,055,295	2,219,070
Fund Balance, Ending	\$ 1,711,140	\$ 2,418,127	\$ 706,987	\$ (557,791)	\$ 7,201	\$ 564,992	\$ 165,841	\$ 1,643,414	\$ 1,477,573

County Of Lackawanna, Pennsylvania

Note to Required Supplementary Information

Unaudited

December 31, 2010

1. Reconciliation Of Budgetary Cash Basis To GAAP Basis

A reconciliation of the County's budgetary cash basis to GAAP basis for 2010 is as follows:

	<u>General Fund</u>	<u>Liquid Fuels</u>	<u>Debt Service</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary cash basis)	\$ (669,682)	\$ (397,697)	\$ (411,881)
Reversal of prior year:			
Receivables	(19,666,795)	-	(485,600)
Liabilities	33,765,137	695,353	81,846
Record current year:			
Receivables	16,906,186	401,269	485,600
Liabilities	<u>(32,197,747)</u>	<u>(610,497)</u>	<u>(795,544)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ (1,862,901)</u>	<u>\$ 88,428</u>	<u>\$ (1,125,579)</u>

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, 2010

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%	55,494,144	62.3%
January 1, 2011	126,642,687	164,450,651	37,807,964	77.0%	44,109,822	85.7%

The actuarial assumptions used in the January 1, 2011 actuarial valuation, the most recent actuarial valuation included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

See Independent Auditors' Report