

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting methods and procedures adopted by the County of Lackawanna, Pennsylvania (the "County"), conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following notes to the financial statements are an integral part of the County's general purpose financial statements.

NATURE OF OPERATIONS

The County is located in northeastern Pennsylvania and was established under the laws of the Commonwealth of Pennsylvania in 1879. It operates under a Home Rule Charter form of government. An elected, three-member Board of Commissioners governs the County. The County 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, the financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units, discussed in Notes 2 and 3, are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the County are organized on the basis of funds and account groups, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. Account groups are used to establish accounting control and accountability for the County's general fixed assets and general long-term obligations. The County uses the following fund types and account groups:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use and balances of the County's expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the County's governmental fund types:

GENERAL FUND

The General Fund is the general operating fund of the County and accounts for the general operations of the County and all financial transactions not accounted for in another fund.

SPECIAL REVENUE FUNDS

Special Revenue Funds are maintained to account for specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. The County maintains the following Special Revenue Funds:

- Liquid Fuels Tax Fund – accounts for state revenues restricted to building and improving roads and bridges.
- Domestic Relations Fund – accounts for the operation of the child support enforcement program.
- Human Services Fund – accounts for revenues received from federal, state and local sources for the provision of specified social services such as medical transportation, daycare, aging, drug and alcohol treatment and prevention and nursing home services.
- Conservation and Development Fund – accounts for revenues received from federal and state sources for specified conservation and development projects.
- Miscellaneous Fund – accounts for all other restricted revenues.

CAPITAL PROJECT FUND

The Capital Project Fund accounts for the financial resources to be used for acquisition or construction of major capital assets and facilities.

DEBT SERVICE FUND

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

PROPRIETARY FUND TYPES

Proprietary funds account for the operations of the County that are financed and operated in a manner similar to those often found in the private sector. The funds included in this category are:

ENTERPRISE FUND

The Enterprise Fund accounts for the operation of the Montage Ski Resort.

INTERNAL SERVICE 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 workers' compensation self-insurance program.

FIDUCIARY FUND TYPES

Fiduciary funds account for the assets held by the County as a trustee or agent for individuals, private organizations and/or other governmental units. The funds included in this category are:

PENSION TRUST FUND

The Pension Trust Fund accounts for assets held by the County as trustee for individuals currently or previously employed by the County.

AGENCY FUND

The Agency Fund accounts for assets held by the County in a custodial or agent function.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the general fixed assets and general long-term obligations of the County. The account groups are not funds. They are designed to measure only the financial position of the accounts and do not provide results of operations. The account groups included in this category are:

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for the investment of the County in real and personal property, other than those accounted for in the Enterprise Fund.

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The General Long-Term Debt Account Group is used to account for the long-term debt of the County, other than those accounted for in the Enterprise Fund.

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

BASIS OF ACCOUNTING

All governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County generally considers real estate taxes and other revenues as available if they are collected within 60 days after year-end. Those revenues susceptible to accrual are real estate taxes, interest, rent, grants and other miscellaneous revenue items. Expenditures, other than principal and interest on general long-term debt, are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due and unpaid.

Proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

For its proprietary fund types, the County applies all Government Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

BUDGETARY ACCOUNTING CONTROL

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 and Liquid Fuels Funds. Accordingly, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund and Liquid Fuels Fund - Budget and Actual (Budgetary Basis) is prepared on the cash basis.

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

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

CASH EQUIVALENTS

For purposes of the statement of cash flows, the County considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

INVESTMENTS

Investments in all funds of the primary government are stated at fair value based on quoted market prices.

TAXES RECEIVABLE

Taxes receivable represent delinquent real estate taxes assessed by the County and are reported at face amount plus penalties and interest.

INTERFUND TRANSACTIONS

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. These advances (reported in "due from" asset accounts) are considered "available spendable resources".

INVENTORIES

Enterprise Fund inventories consist of ski apparel and other miscellaneous ski items and are stated at the lower of cost (first-in, first-out method) or market.

Governmental fund types use the purchase method for accounting for inventories. Under this method, inventory items, such as materials and supplies, are considered expenditures when purchased and are therefore not reported as an asset.

FIXED ASSETS

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group.

Assets in the General Fixed Asset Account Group are not depreciated.

The County has not maintained adequate records to support its reported values of fixed assets in its General Fixed Asset Account Group and Enterprise Fund.

Depreciation of Enterprise Fund fixed assets is provided on the straight-line method over the estimated useful lives of the assets.

BOND ISSUANCE COSTS

Costs incurred in connection with the issuance of the Series of 1994 general obligation bonds have been deferred by the Enterprise Fund and are being amortized over the life of the related obligation.

AMOUNTS TO BE PROVIDED FOR LONG-TERM OBLIGATIONS

The balance in these accounts represents the amounts to be provided from future taxes or other general revenues to retire long-term obligations.

COMPENSATED ABSENCES

County employees are granted vacation and sick leave in varying amounts based on their length of employment and the terms of any applicable union contracts. Employees covered by union contracts 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 nonunion employees may accumulate vacation days.

Vested or accumulated sick and vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the fund that will pay it. Amounts of vested or accumulated sick and vacation leave not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts.

DEFERRED REVENUES

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the County receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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 Internal Service Fund charges other funds based on the estimated annual cost.

The County has recorded an estimated liability for known claims, based on estimates of the ultimate cost of reported claims (including future claim 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.

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 at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

TOTAL COLUMNS ON COMBINED STATEMENTS

The total columns on the combined general purpose financial statements entitled "Memorandum Only" are presented for information purposes only. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund balances have not been eliminated and, as such, the column is not intended to present consolidated financial information.

2. REPORTING ENTITY

In accordance with the guidance contained in GASB No. 14, *The Financial Reporting Entity*, the County has evaluated all related entities (authorities, commissions and affiliates) for the possible inclusion in the reporting entity.

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

BLENDED COMPONENT UNITS

Some components 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 Special Revenue Fund. The component units reported in this way are:

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

DISCRETELY PRESENTED COMPONENT UNITS

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

- Lackawanna County Redevelopment Authority. The Authority administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the Authority.
- Lackawanna County River Basin Sewer Authority. The Authority owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.
- County of Lackawanna Transit System Authority. The Authority operates the County's mass transit system. The County Commissioners appoint the governing board of the Authority.
- Lackawanna County Railroad Authority. The Authority operates railroad lines in the County. The County Commissioners appoint the governing board of the Authority.

- Multi-Purpose Stadium Authority of Lackawanna County. The Authority operates the Lackawanna County Multi-Purpose Stadium and the Scranton/Wilkes-Barre Red Barons, a professional baseball team. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.
- Lackawanna County Library System. The System 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 System.
- Lackawanna County Performing Arts Center Authority. The Authority operates a performing arts amphitheatre. The County Commissioners appoint the governing board of the Authority. The County has also guaranteed the long-term debt of the Authority.
- Scranton Lackawanna Health and Welfare Authority. The Authority acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the Authority.

RELATED ORGANIZATIONS

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

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

JOINT VENTURES

The County is a participant with other counties in joint ventures that provide services to the constituents of all the participants. The County is a participant in the following joint ventures and the investment in these joint ventures are not included in the general purpose financial statements:

- Wilkes-Barre / Scranton International Airport. A joint venture with the County of Luzerne, the county commissioners of each county serve as the members of the governing board.
- Lackawanna Susquehanna Wayne Mental Health Mental Retardation Program. A joint venture with the Counties of Susquehanna and Wayne, each county appoints three members of the governing board.