

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

### **3. COMPONENT UNITS – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY**

##### **BASIS OF ACCOUNTING**

The Authority maintains its books on the accrual basis of accounting.

#### **LACKAWANNA RIVER BASIN SEWER AUTHORITY**

##### **BASIS OF ACCOUNTING**

The Authority maintains its books on the cash basis of accounting.

##### **RESTRICTED INVESTMENTS**

Investments consist of United States government obligations and certificates of deposit and are stated at cost. Such investments are considered restricted under the terms of the Authority's bond indentures.

##### **FIXED ASSETS**

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated lives of the assets.

#### **COUNTY OF LACKAWANNA TRANSIT SYSTEM AUTHORITY**

##### **BASIS OF ACCOUNTING**

The Authority maintains its books in conformity with the accounting practices prescribed or permitted by the U.S. Department of Transportation and the Commonwealth of Pennsylvania Department of Transportation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

##### **RESTRICTED CASH AND CASH EQUIVALENTS**

Restricted cash and cash equivalents represents dedicated funding received from the Commonwealth of Pennsylvania that may only be used for capital acquisition and preventative maintenance expenses.

**INVESTMENTS**

Investments consist of United States government obligations and are stated at cost.

**FIXED ASSETS**

Fixed assets are stated at cost. Assets acquired with capital grants are capitalized and depreciated. Depreciation is provided using the straight-line method over the estimated lives of the assets.

**CAPITAL GRANTS**

Grants received for the acquisition of assets are treated as contributed capital. Assets acquired by capital grants are depreciated, as an operating expense. Contributed capital is amortized over the useful life of the assets and added back to the retained earnings of the Authority.

**LACKAWANNA COUNTY RAILROAD AUTHORITY**

**BASIS OF ACCOUNTING**

The Authority maintains its books on the accrual basis of accounting.

**FIXED ASSETS**

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated lives of the assets.

**CAPITAL GRANTS**

Grants received for the acquisition of assets are treated as contributed capital. Assets acquired by capital grants are depreciated, as an operating expense. Contributed capital is amortized over the useful life of the assets and added back to the retained earnings of the Authority.

**MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY**

**BASIS OF ACCOUNTING**

The Authority maintains its books on the accrual basis of accounting.

**RESTRICTED INVESTMENTS**

Restricted investments consist of United States government obligations and liquid assets funds and are stated at cost.

**FIXED ASSETS**

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated lives of the assets.

**OTHER ASSETS**

Other assets consist primarily of the cost of the baseball franchise, which is being amortized over a period of forty years using the straight-line method.

**DEFERRED REVENUES**

Revenues received in advance for season ticket sales are recorded as deferred revenues and are recognized in the period in which they are earned.

**LACKAWANNA COUNTY LIBRARY SYSTEM**

**BASIS OF ACCOUNTING**

The Authority maintains its books using a modified cash basis of accounting.

**FIXED ASSETS**

Fixed assets are stated at cost or market value at the time of donation. No depreciation has been provided on general fixed assets.

**INVESTMENTS**

Investments consist of a certificate of deposit, which is stated at cost.

**LACKAWANNA COUNTY PERFORMING ARTS CENTER AUTHORITY**

**BASIS OF ACCOUNTING**

The Authority maintains its books on the accrual basis of accounting.

**FIXED ASSETS**

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated lives of the assets.

#### **DEFERRED REVENUES**

Amounts received in advance for the Authority's concert concession agreement are being recognized over the term of the contract.

#### **CONCERT CONCESSION AGREEMENT**

The Authority has entered into a concert concession agreement that provides an exclusive right to promote and present entertainment at the Authority's amphitheatre. The agreement provides for the Authority to receive \$10,000,000 through December 2011. The Authority received \$2,500,000 in 2002 as an initial payment.

#### **SCRANTON LACKAWANNA HEALTH AND WELFARE AUTHORITY**

##### **BASIS OF ACCOUNTING**

The Authority maintains its books on the cash basis of accounting.

##### **RESTRICTED INVESTMENTS**

Investments are stated at cost, which approximates fair value. Such investments are restricted under the terms of bond indenture agreements.

##### **FUTURE RENTAL RECEIVABLE/NONRECOURSE DEBT ISSUES**

The Authority has entered into lease, sublease and guarantee agreements for facilities being financed through the issuance of bonds by the Authority. The Authority 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. The Authority 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 the Authority 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 the Authority'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 on the financial statements of the Authority. The Authority has executed a trust indenture with a trustee bank for each bond issue which, among other things, assigns all of the Authority's rights, title and interest in the facilities under the various bond agreements.

The Authority, 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 the financial statements. As of December 31, 2002, there were twelve general obligation bond issues outstanding and seven notes and mortgages outstanding with an aggregate balance of \$273,568,701.

#### **4. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Pennsylvania statutes provide for investment of governmental and proprietary funds into certain authorized investment types, including United States Treasury bills, other short-term United States and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental and proprietary funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate and other investments consistent with sound business practice.

The deposit and investment policy of the County adheres to state statutes and prudent business practice. Deposits of the governmental funds are maintained in demand deposits and certificates of deposit.

##### **CASH AND CASH EQUIVALENTS**

Bank balances of governmental units are categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes bank balances that are insured (by federal depository insurance) or collateralized with securities held by the County or its agent in the County's name. Category 2 includes bank balances collateralized with securities held by the bank or its agent in the County's name. Category 3 includes bank balances that are uncollateralized, including any bank balance that is collateralized with securities held by the bank or its agent but not in the County's name. Category 3 includes balances collateralized under Act 72 of the Commonwealth of Pennsylvania, which requires all public funds in excess of \$100,000 be collateralized.

At December 31, 2002, the bank balance of the primary government's deposits was \$28,702,590 compared to the carrying amount of \$17,528,159. The total bank balance that was secured by federal depository insurance was \$1,113,341 (Category 1). The remainder was secured by securities pledged by the financial institutions for such funds but not in the County's name (Category 3).

**INVESTMENTS**

Investments of governmental units are also categorized to give an indication of the level of risk assumed by the County at year-end. Category 1 includes securities that are insured or registered or which are held by the County or its agent in the County's name. Category 2 includes securities held by the counterparty or agent in the County's name. Category 3 includes uninsured and unregistered investments held by the counterparty or agent, but not in the County's name. Certain investments are not categorized (e.g., mutual funds) because securities are not used as evidence of the investment.

At December 31, 2002, the carrying amount of the primary government's investments was \$73,911,792. The carrying amount of investments classified as Category 1 was \$65,418,831. The remainder consists of mutual funds that are uncategorized as to investment risk.

Investments are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>
Federated money market funds	\$ 6,708,917	\$ 6,708,917
U.S. government obligations	15,178,443	15,702,640
Corporate bonds	7,756,541	8,205,207
International bonds	218,091	234,150
Notes and mortgages	4,977,100	5,268,881
Common stocks	31,708,816	29,299,036
Mutual funds	<u>12,185,590</u>	<u>8,492,961</u>
Total	<u>\$78,733,498</u>	<u>\$73,911,792</u>

Discretely presented component unit financial statements do not provide all the credit risk disclosures on cash and cash equivalents and investments. Therefore, no information on credit risk for these entities has been provided.

**5. REAL ESTATE TAXES**

Real estates taxes are levied each February 1 on the assessed value of all real property located in the County. 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.

COUNTY OF LACKAWANNA, PENNSYLVANIA  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

In 2002, real estate taxes were levied at the rate of 27.6293 mills (\$27.6293 per \$1,000 of assessed valuation) for general and debt service purposes. In addition, an additional 2.1 mills was levied specifically for funding library services in the County. Amounts collected under the additional levy are remitted to the Lackawanna County Library System.

The schedule for real estate taxes 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

## 6. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2002. The amount due from the Pennsylvania Department of Public Welfare for the Children and Youth Program is \$2,925,351 of the total \$4,476,746 in the General Fund.

Additionally, the Domestic Relations Fund (a Special Revenue Fund) and the Capital Projects Fund are due \$356,648 and \$678,109, respectively, at December 31, 2002, for expenditures that are reimbursable from the Commonwealth of Pennsylvania.

## 7. GENERAL FIXED ASSETS

A summary of changes in general fixed assets for 2002 follows:

	BALANCE JANUARY 1, <u>2002</u>	TRANSFERS/ <u>ADDITIONS</u>	TRANSFERS/ <u>RETIREMENTS</u>	BALANCE DECEMBER 31, <u>2002</u>
Buildings and improvements	\$33,143,687			\$33,143,687
Furniture and equipment	<u>10,923,631</u>	<u>\$186,185</u>	<u>\$ -</u>	<u>11,109,816</u>
Total	<u>\$44,067,318</u>	<u>\$186,185</u>	<u>\$ -</u>	<u>\$44,253,503</u>

## 8. ENTERPRISE FUND FIXED ASSETS

A summary of changes in Enterprise Fund fixed assets for 2002 follows:

	BALANCE JANUARY 1, <u>2002</u>	TRANSFERS/ <u>ADDITIONS</u>	TRANSFERS/ <u>RETIREMENTS</u>	BALANCE DECEMBER 31, <u>2002</u>
Land and land improvements	\$ 8,937,605			\$ 8,937,605
Buildings and improvements	2,930,029	\$ 24,704		2,954,733
Furniture and equipment	<u>2,419,095</u>	<u>140,096</u>	\$ -	<u>2,559,191</u>
Total	14,286,729	164,800	-	14,451,530
Less				
accumulated depreciation	<u>(7,665,277)</u>	<u>(772,010)</u>	-	<u>(8,437,288)</u>
Total	<u>\$6,621,452</u>	<u>\$(607,210)</u>	<u>\$ -</u>	<u>\$ 6,014,242</u>

The Enterprise Fund fixed assets includes equipment acquired under capital lease with a net book value of \$423,915 at December 31, 2002.

## 9. SHORT-TERM OBLIGATIONS

The County issued a \$7,000,000 tax and revenue anticipation note on January 2, 2002. This note bore interest at a rate of 3.12% and matured on December 31, 2002. The County paid the \$7,000,000 at maturity. Interest paid on the note was \$220,220.

## 10. LONG-TERM OBLIGATIONS

### GENERAL LONG-TERM DEBT ACCOUNT GROUP

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



In 1997, the County issued \$8,475,000 of general obligation bonds (Series of 1997) to finance the expansion of the County's health care center. These bonds are due in varying annual installments plus interest at rates ranging from 4.20% to 5.60% with final maturity scheduled for 2022.

In 1997, the County issued \$34,485,000 of general obligation bonds (Series A of 1997) to finance the expansion and renovation of the County prison. These bonds are due in varying annual installments plus interest at rates ranging from 4.15% to 5.50% with final maturity scheduled for 2020.

In 1999, the County issued \$27,865,000 of general obligation bonds (Series A of 1999) to currently refund a 1993 bond issue, advance refund a portion of a 1994 bond issue, advance refund a 1996 bond issue and advance refund a portion of the Series of 1997 bond issue as well as finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 3.00% to 5.00% with final maturity scheduled for 2022.

In 1999, the County issued \$5,225,000 of taxable general obligation bonds (Series B of 1999) to finance the construction of an amphitheatre. These bonds are due in varying annual installments plus interest at rates ranging from 5.875% to 7.000% with final maturity scheduled for 2019. In 2002, the County transferred \$3,890,000 of this obligation to the Lackawanna County Performing Arts Center Authority.

In 2002, the County issued \$19,540,000 of general obligation bonds (Series A of 2002) to currently refund 1992 and 1995 bond issues and finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 2.000% to 5.125% with final maturity scheduled for 2020.

In 2002, the County issued \$4,425,000 of taxable general obligation bonds (Series B of 2002) to repay bank loans of the Lackawanna County Performing Arts Center Authority. These bonds are due in varying annual installments plus interest at rates ranging from 2.65% to 6.85% with final maturity scheduled for 2020. In 2002, the County transferred \$4,425,000 of this obligation to the Lackawanna County Performing Arts Center Authority.

The County and the County of Luzerne have equally assumed the bank debt of the Northeastern Pa. Sports Development Corporation, the entity established to purchase the professional baseball team operated by the Multi-Purpose Stadium Authority of Lackawanna County. The debt requires monthly payments of \$9,248 including interest at a rate of 9.50% through August 2008. The County's portion of the monthly payment is \$4,624. In the event of the sale of the professional baseball team, the County of Luzerne would be entitled to one-half of the proceeds of the sale.

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The following is a summary of changes in the above bonds and note payable in 2002:

	BALANCE JANUARY 1, 2002, AS <u>ADJUSTED</u>	<u>PROCEEDS</u>	<u>TRANSFERS/ REPAYMENTS</u>	BALANCE DECEMBER 31, 2002
Series A of 1992	\$ 4,840,000		\$ (4,840,000)	\$ -
Series A of 1995	5,365,000		(5,365,000)	-
Series B of 1995	495,000		(50,000)	445,000
Series of 1997	940,000		(220,000)	720,000
Series A of 1997	34,470,000		(5,000)	34,465,000
Series A of 1999	26,930,000		(715,000)	26,215,000
Series B of 1999	5,080,000		(3,925,000)	1,155,000
Series A of 2002	-	\$19,540,000	(205,000)	19,335,000
Series B of 2002	-	4,425,000	(4,425,000)	-
Northeastern Pa. Sports Development Corporation note	<u>276,624</u>	<u>-</u>	<u>(33,204)</u>	<u>243,420</u>
Total	<u>\$78,396,624</u>	<u>\$23,965,000</u>	<u>\$(19,783,204)</u>	<u>\$82,578,420</u>

General long-term debt at January 1, 2002 has been adjusted as follows:

- To remove the Series of 1992 B amount of \$1,720,000. These bonds were removed as they were advance refunded by a 1995 bond issue and are considered defeased for financial reporting purposes.
- To add back \$940,000 of the Series of 1997. This amount represents the portion of the Series of 1997 that was not advance refunded by the Series A of 1999.
- To reduce the County's portion of the Northeastern Pa. Sports Development Corporation note by \$16,745.

Interest paid on these bonds and note was \$4,084,335 in 2002.

COUNTY OF LACKAWANNA, PENNSYLVANIA  
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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 thereon 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 General Long-Term Debt Account Group. At December 31, 2002, the amount of defeased bonds outstanding but removed from the General Long-Term Debt Account Group was \$7,890,000.

The following summarizes the County's future debt service requirements on its general long-term debt as of December 31, 2002:

<u>YEAR ENDING DECEMBER 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2003	\$ 2,373,807	\$ 4,037,510	\$ 6,411,317
2004	2,557,162	3,956,133	6,513,295
2005	2,655,850	3,858,544	6,514,394
2006	2,754,905	3,757,623	6,512,528
2007	2,874,361	3,636,658	6,511,019
2008-2012	17,662,335	16,112,623	33,774,958
2013-2017	29,140,000	10,557,499	39,697,499
2018-2022	<u>22,560,000</u>	<u>2,501,532</u>	<u>25,061,532</u>
Total	<u>\$82,578,420</u>	<u>\$48,418,122</u>	<u>\$130,996,542</u>

**COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences accounted for in the General Long-Term Debt Account Group in 2002:

Balance, January 1, 2002	\$ 6,388,230
Net change	<u>(1,237,850)</u>
Balance, December 31, 2002	<u>\$ 5,150,380</u>

**ENTERPRISE FUND**

In 1994, the County issued \$19,305,000 of general obligation bonds (Series of 1994) to advance refund a 1991 bond issue (proceeds of which were used to purchase Montage Ski Resort), currently refund 1987 and 1988 notes and finance capital improvements. In 1999, a portion of these bonds was advance refunded by the Series A of 1999. The remainder of these bonds is considered an obligation of the Enterprise Fund. These bonds are due in varying annual installments plus interest at rates ranging from 4.10% to 6.00% with final maturity scheduled for 2011.

COUNTY OF LACKAWANNA, PENNSYLVANIA  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

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The following is a summary of changes in Enterprise Fund debt in 2002:

	BALANCE JANUARY 1, 2002	PROCEEDS	TRANSFERS/ REPAYMENTS	BALANCE DECEMBER 31, 2002
Series of 1994	<u>\$10,590,000</u>	<u>\$ -</u>	<u>\$ (1,000,000)</u>	\$ 9,590,000
Unamortized discount				<u>(465,459)</u>
Total				<u>\$9,124,541</u>

Interest paid was \$542,175 in 2002.

The following summarizes the Enterprise Fund's future debt service requirements on the above bonds as of December 31, 2002:

<u>YEAR ENDING DECEMBER 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2003	\$ 965,000	\$ 497,175	\$ 1,462,175
2004	905,000	452,785	1,357,785
2005	950,000	410,250	1,360,250
2006	995,000	364,650	1,359,650
2007	1,040,000	315,895	1,355,895
2008-2011	<u>4,735,000</u>	<u>698,145</u>	<u>5,433,145</u>
Total	<u>\$9,590,000</u>	<u>\$2,738,900</u>	<u>\$12,328,900</u>

The Enterprise Fund has entered into two capital leases for snow grooming equipment. The first lease agreement requires twenty-five payments of \$26,187 (five per year, December through April) and no payments for remainder of year. The lease expires in October 2006. The second lease requires monthly payments of \$298 through October 2007.

COUNTY OF LACKAWANNA, PENNSYLVANIA  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

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The following is a summary of future minimum lease payments required under these capital leases along with the present value of the net minimum lease payments as of December 31, 2002:

<u>YEARS ENDING DECEMBER 31</u>	<u>AMOUNT</u>
2003	\$ 134,215
2004	134,513
2005	134,512
2006	134,512
2007	<u>2,980</u>
Total minimum lease payments	540,732
Less amounts representing interest	<u>57,874</u>
Present value of net minimum lease payments	<u>\$ 482,858</u>

**DISCRETELY PRESENTED COMPONENT UNITS**

The following is a summary of long-term debt for the discretely presented component units at December 31, 2002:

	<u>AMOUNT</u>
<b>LACKAWANNA COUNTY REDEVELOPMENT AUTHORITY:</b>	
Bank note, due in varying annual installments plus interest at 5.5%, maturing 2004	\$ 1,159,872
Term note, due in varying semi-annual installments plus interest at 5.5%; maturing 2011	9,710,403
Term note, due in varying semi-annual installments plus interest at 5.5%; maturing 2007	<u>435,227</u>
Total	<u>11,305,502</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

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**LACKAWANNA RIVER BASIN SEWER AUTHORITY:**

Guaranteed Sewer Revenue Refunding Bonds, Series 1994, due in varying annual installments plus interest	\$ 2,885,000
Guaranteed Sewer Revenue Refunding Bonds, Series 2002, due in varying annual installments plus interest at rates ranging from 1.75% to 4.35%; final maturity scheduled for 2015	2,510,000
PENNVEST note, due in monthly installments of \$17,432 including interest at 1%; maturing 2011	<u>1,655,826</u>
Total	<u>7,050,826</u>

**LACKAWANNA COUNTY RAILROAD AUTHORITY:**

Mortgage note, due in annual installments of \$9,250 with no interest; maturing 2012	92,500
Demand note, due upon cessation of operations	<u>750,000</u>
Total	<u>842,500</u>

**MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA  
COUNTY:**

Guaranteed Stadium Revenue Bonds, Series 2002, due in varying annual installments plus interest at an average rate of 2.9%; final maturity scheduled for 2007	8,065,000
Term note, due in monthly payments of \$4,602 including interest at 3.84%; maturing 2007	219,869
Line of credit note, \$75,000 maximum, interest at national prime rate (4.25% at December 31, 2002)	<u>30,000</u>
Total	<u>8,314,869</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA  
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**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	\$ 3,645,000
General obligation bonds, Series B of 2002, due in varying annual installments plus interest at rates ranging from 2.65% to 6.85%; final maturity scheduled for 2020. Reported net of unamortized discount of \$30,115.	<u>4,179,885</u>
Total	<u>7,824,885</u>
Total component unit debt	<u>\$35,338,582</u>

Scheduled principal maturities on debt of the discretely presented component units is summarized as follows:

<u>YEARS ENDING DECEMBER 31</u>	<u>AMOUNT</u>
2003	\$ 4,494,632
2004	3,949,988
2005	3,726,824
2006	3,827,021
2007	3,179,824
Thereafter	<u>16,160,293</u>
Total	<u>\$35,338,582</u>