

## 11. RETIREMENT PLAN

### PLAN DESCRIPTION

The Lackawanna County Retirement Fund (the "Plan") is a single-employer defined benefit pension plan that covers all full-time employees of the County. The Plan provides retirement, disability and death benefits to its members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Lackawanna County Employees' Retirement Board. It 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 Commissioners' office.

Membership of the Plan consisted of the following at December 31, 2002, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	401
Terminated plan members entitled to but not yet receiving benefits	58
Active plan members	<u>1,241</u>
Total	<u>1,700</u>
Number of participating employers	<u>1</u>

### FUNDING POLICY

Plan members are required to contribute 8% of their annual covered salary. The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, contribution requirements of the Plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings.

**ANNUAL PENSION COST**

The 2002 annual required contribution, as determined by an actuarial valuation as of December 31, 2002, was \$1,197,585. The County did not pay the annual required contribution. The actuarial assumptions included a 7.5% investment rate of return and projected salary increases of 3.0% - 4.5%, using a graduated .25% increase over six years. These assumptions included an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress. Separate determination and amortization of the unfounded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used.

The County's annual pension cost and net pension obligation for 2002 were as follows:

Annual required contribution	\$ 1,197,585
Interest on net pension obligation	16,541
Adjustment to annual required contribution	<u>(27,598)</u>
Annual pension cost	1,186,528
Contributions made	<u>-</u>
Increase in net pension obligation	1,186,528
Net pension obligation, beginning of year	<u>220,550</u>
Net pension obligation, end of year	<u>\$1,407,078</u>

Three-year trend information for the Plan is as follows:

<u>YEAR ENDED DECEMBER 31</u>	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
2000	\$ 4,979	0.0%	\$ (94,150)
2001	314,700	0.0%	220,550
2002	1,186,528	0.0%	1,407,078

**12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivable and payable balances at December 31, 2002 are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
<b>GENERAL FUND:</b>		
Health Care Center Fund	\$ 1,123,915	\$ -
Coordinated Transportation Fund	5,045	-
Drug and Alcohol Fund	37,391	-
Agency Fund	842,945	-
Capital Projects Fund	-	800,000
Area Agency on Aging Fund	-	<u>41,938</u>
Total General Fund	<u>2,009,296</u>	<u>841,938</u>
<b>SPECIAL REVENUE FUNDS:</b>		
Area Agency on Aging Fund	41,938	-
Health Care Center Fund	-	1,123,915
Coordinated Transportation Fund	-	5,045
Drug and Alcohol Fund	-	<u>37,391</u>
Total special revenue funds	<u>41,938</u>	<u>1,166,351</u>
AGENCY FUND	-	<u>842,945</u>
CAPITAL PROJECTS FUND	<u>800,000</u>	-
Totals	<u>\$2,851,234</u>	<u>\$2,851,234</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Interfund transfers in 2002 are as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
<b>GENERAL FUND:</b>		
Debt Service Fund	\$1,340,130	\$4,251,845
Special Revenue Fund:		
Hotel Tax Fund	41,000	-
Probation and Parole Fund	150,000	-
911 Fund	-	556,987
Domestic Relations Fund	-	888,671
Capital Projects Fund	992	-
Multi-Purpose Stadium Authority of Lackawanna County	-	200,000
	<u>                    -</u>	<u>                    -</u>
Total General Fund	<u>\$1,532,122</u>	<u>\$5,897,503</u>
<b>SPECIAL REVENUE FUNDS:</b>		
General Fund:		
911 Fund	\$ 556,987	\$ -
Domestic Relations Fund	888,671	-
Hotel Tax Fund	-	41,000
Probation and Parole Fund	-	150,000
Debt Service Fund:		
Hotel Tax Fund	-	210,032
911 Fund	-	250,652
Health Care Center Fund	-	476,516
Capital Projects Fund:		
Health Care Center Fund	-	55,090
Hotel Tax Fund	-	239,653
Lackawanna County Performing Arts Center Authority	-	652,956
	<u>                    -</u>	<u>                    -</u>
Total Special Revenue Funds	<u>\$1,445,658</u>	<u>\$2,075,899</u>
<b>DEBT SERVICE FUND:</b>		
General Fund	\$4,251,845	\$ 1,340,130
Special Revenue Funds:		
Hotel Tax Fund	210,032	-
911 Fund	250,652	-
Health Care Center Fund	476,516	-
Capital Projects Fund	750,000	75,000
Enterprise Fund	-	2,531,285
	<u>                    -</u>	<u>                    -</u>
Total Debt Service Fund	<u>\$5,939,045</u>	<u>\$ 3,946,415</u>

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CAPITAL PROJECTS FUND:		
General Fund	\$ -	\$ 992
Special Revenue Funds:		
Hotel Tax Fund	239,653	-
Health Care Center Fund	55,090	-
Debt Service Fund	75,000	750,000
Enterprise Fund	-	284,586
Lackawanna County Performing Arts Center Authority	-	9,543,475
Multi-Purpose Stadium Authority of Lackawanna County	-	61,253
Lackawanna County Railroad Authority	-	810,216
	<u>          </u>	<u>          </u>
Total Capital Projects Fund	<u>\$ 369,743</u>	<u>\$11,450,522</u>
ENTERPRISE FUND:		
Capital Projects Fund	\$ 284,586	\$ -
Debt Service Fund	<u>2,531,285</u>	<u>          </u>
	<u>          </u>	<u>          </u>
Total Enterprise Fund	<u>\$2,815,871</u>	<u>\$          </u>
MULTI-PURPOSE STADIUM AUTHORITY OF LACKAWANNA COUNTY:		
General Fund	\$ 200,000	\$ -
Capital Projects Fund	<u>61,253</u>	<u>          </u>
	<u>          </u>	<u>          </u>
	<u>\$ 261,253</u>	<u>\$          </u>

The transfers made to the Lackawanna County Performing Arts Center Authority were related to the construction of the amphitheatre and the Authority's assumption of general obligation bonds issued by the County. The transfers are reported as fixed assets and long-term debt on the Authority's books.

The transfer to the Lackawanna County Railroad Authority was related to the transfer of grant monies used for the construction of the Laurel Line trolley system. The Authority has recognized these amounts as grant income.

**13. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS**

A reconciliation of budgeted funds for 2002 is as follows:

	<u>General Fund</u>	<u>Liquid Fuels</u>
Excess of revenues and other financing sources over expenditures and other financing uses (budgetary cash basis)	\$ 859,497	\$ 49,643
Reversal of prior year:		
Receivables	(10,561,703)	(1,179,258)
Liabilities	8,606,858	2,018,686
Record current year:		
Receivables	19,255,545	4,700
Liabilities	(22,345,913)	(87,960)
Prior period adjustment	<u>498,799</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$(3,686,918)</u>	<u>\$ 805,811</u>

**14. DEFICIT FUND BALANCES**

The General Fund has a deficit fund balance of \$(1,521,794) at December 31, 2002 resulting primarily from its inability to generate sufficient excess revenues over expenses to support the existing debt service of the County as well as support of other County and Authority obligations and operations.

The Enterprise Fund has deficit fund equity of \$(3,534,867) at December 31, 2002 resulting from its inability to generate sufficient operating income to cover its debt service.

The Internal Service Fund has a deficit fund balance of \$(1,628,217) at December 31, 2002. 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 has a deficit fund balance of \$(7,831,501) at December 31, 2002. The deficit resulted from the financing of the PEI Power Park infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Authority anticipates the deficit to be substantially eliminated by the year 2011.

**15. 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.

In 1980, the County elected to self-insure its workers' compensation. 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 balances of claims liabilities in 2001 and 2002 are as follows:

Balance at January 1, 2001	\$ 1,140,989
Claims incurred and changes in estimates	1,332,795
Claims paid	<u>(1,020,870)</u>
Balance, December 31, 2001	1,452,914
Claims incurred and changes in estimates	1,429,601
Claims paid	<u>(624,016)</u>
Balance, December 31, 2002	<u>\$2,258,499</u>

**16. COMMITMENTS AND CONTINGENCIES**

**GUARANTEES**

The County has guaranteed the debt of the following entities and, if necessary, to make payments to the entities to meet their debt obligations. The guaranteed debt of these Authorities at December 31, 2002 is as follows:

Lackawanna County River Basin Sewer Authority	\$ 5,395,000
Lackawanna County Performing Arts Center Authority	7,824,885
Multi-Purpose Stadium Authority of Lackawanna County	<u>8,065,000</u>
Total debt guaranteed	<u>\$21,284,885</u>

## LITIGATION

The County is involved in several lawsuits arising in the normal course of business. It is the County solicitor's opinion that the aggregate amount of potential claims not covered by insurance resulting from actions against the County would not materially affect the financial position of the County at December 31, 2002.

## 17. NEW ACCOUNTING PRONOUNCEMENTS

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"). GASB 34 requires significant changes including the preparation of full accrual financial statements on a government-wide basis, the addition of a Management Discussion and Analysis section providing an overall analysis of the County's financial position and results of operations and a change in focus of the fund financial statements to major funds.

In June 2001, GASB issued Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, which amended GASB 34 by clarifying or modifying certain of its provisions and Statement No. 38, *Certain Financial Statement Note Disclosures*, which modified, established or rescinded certain financial statement disclosure requirements.

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the County is not financially accountable should be reported as component units based on the nature and significance of their relationship with the County.

The County is required to implement GASB 34, 37, 38 and 39 in its 2003 fiscal year.

The County has not yet determined the effect of the adoption of these statements on its financial statements.



## 18. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were recorded:

- The General Fund did not record an amount of \$498,799 due to the County of Lackawanna Transit System Authority at December 31, 2001. This error resulted in an overstatement of revenues and other financing sources over expenditures and other financing uses for 2001 of \$498,799 and a corresponding overstatement of the General Fund fund balance at December 31, 2001 of \$498,799.
- The Special Revenue Fund included a duplicate investment classified as cash and omitted various cash accounts resulting in an overstatement of cash of \$57,381 at December 31, 2001. This error resulted in an overstatement of revenues and other financing sources over expenditures and other financing uses for 2001 of \$57,381 and a corresponding overstatement of the Special Revenue Fund fund balance at December 31, 2001 of \$57,381.
- The General Long-Term Debt Account Group at December 31, 2001 included the Series B of 1992 general obligation bond issue of \$1,720,000 that had been advanced refunded in a prior year. In addition, the Series of 1997 general obligation bond issue was understated by \$940,000. Finally, the balance of the Northeastern Pa. Sports Development Corporation note was overstated by \$16,745 at December 31, 2001.
- The fund balance of the Lackawanna County Performing Arts Center Authority, a discretely presented proprietary component unit, reported in the County's 2001 general purpose financial statements did not agree with the fund balance in the component unit's standalone audited financial statements as of December 31, 2001. This error resulted in an understatement of net income in 2001 of \$1,396,010 and a corresponding understatement of this discretely presented component unit's retained earnings at December 31, 2001 of \$1,396,010.
- The fund balance of the Scranton Lackawanna Health and Welfare Authority, a discretely presented governmental component unit, reported in the County's 2001 general purpose financial statements did not agree with the fund balance in the component unit's standalone financial statements as of December 31, 2001. This error resulted in an overstatement of excess revenues over expenditures in 2001 of \$1,352,295 and a corresponding overstatement of this discretely presented governmental component unit's fund balance at December 31, 2001 of \$1,352,295.

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As a result of the prior period adjustments, the primary government's fund equity at December 31, 2001 and excess of revenues and other financing sources over expenditures and other financing uses for 2001 was overstated by \$556,180; long-term debt in the General Long-Term Account Group was overstated by \$763,255 at December 31, 2001; the discretely presented governmental component units' fund balance was overstated by \$1,352,295; and the discretely presented proprietary component units' fund balance was understated by \$1,396,010.

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