

BASIC FINANCIAL STATEMENTS

**COUNTY OF LACKAWANNA,
PENNSYLVANIA**

DECEMBER 31, 2008

COUNTY OF LACKAWANNA, PENNSYLVANIA

DECEMBER 31, 2008

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COUNTY OF LACKAWANNA, PENNSYLVANIA

DECEMBER 31, 2008

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Certified Public Accountants
Business Consultants

Philadelphia, PA | Marlton, NJ

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103
215 564-1900 phone
215 564-3940 fax
www.asherco.com

An independent firm associated with
Moore Stephens International Limited

Independent Auditors' Report

To The Commissioners County of Lackawanna, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Area Agency on Aging ("LCAAA", a Special Revenue Fund), Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA", a blended component unit), Pension Trust Fund and the following entities collectively referred to as "Component Units": the Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Lackawanna County Redevelopment Authority, Lackawanna County River Basin Sewer Authority, County of Lackawanna Transit System, Multi-Purpose Stadium Authority of Lackawanna County, and the Lackawanna County Performing Arts Center Authority, which represent the foregoing percentages of the total assets, net assets/fund balance, and total revenues as follows:

	<u>Total Assets</u>	<u>Net Assets/ Fund Balance</u>	<u>Total Revenues</u>
Government-wide:			
Governmental activities -			
LCAAA	2%	.03%	3%
LCCDAA	1%	.34%	1%
Component units	100%	100%	100%
Fund statements:			
Fiduciary Pension Trust Fund	99%	81%	100%

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



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Page Two
To The Commissioners
County of Lackawanna, Pennsylvania

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2010 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.

The Management's discussion and analysis, budgetary information, and schedule of funding progress on pages 3 through 13, pages 62 and 64, are not a required part of the basic financial statements but are supplementary information required by generally accepted accounting principles. We and the other auditors applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Asher & Company, Ltd.
ASHER & COMPANY, Ltd.

August 24, 2010

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

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, 2008 compared to the year ended December 31, 2007. 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 primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

Overall, the County's liabilities exceed the assets by \$69,148,157 at December 31, 2008.

General Fund expenses exceeded revenues in 2008. This reduced the General Fund balance from \$3,487,379 at December 31, 2007 to \$1,539,663 at December 31, 2008.

During 2008, the County was 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 and 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.

The County also undertook a reduction in force in 2008, in an attempt to reduce County annual expenditures to a level that is less than annual revenues.

In addition, the County began a major restructuring of its debt service during 2008 in order to limit the County's variable rate exposure as well as limit the County's SWAP exposure,

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

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 14-15 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 used 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 changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

GOVERNMENTAL FUNDS (Continued)

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the County's major funds, which are the General Fund, Health and Human Services Fund, Landfill Trust Fund, Debt Service Fund and the Capital Projects Fund. All the governmental funds are not considered individually significant and have been aggregated and reported under the caption "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General, Debt Service and Liquid Fuels Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 62.

The basic fund financial statements can be found on pages 16-23 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 24-25 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 28-61 of this report.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

**CONDENSED STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008 and 2007**

ASSETS

	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 62,047,200	\$ 69,926,889
Capital Assets	<u>118,019,659</u>	<u>113,958,632</u>
Total Assets	<u>\$180,066,859</u>	<u>\$183,885,521</u>

LIABILITIES

Current Liabilities	\$ 32,012,548	\$ 35,873,607
Long Term and Other Liabilities	<u>217,202,468</u>	<u>200,861,183</u>
Total Liabilities	<u>\$249,215,016</u>	<u>\$236,734,790</u>

NET ASSETS (DEFICIT)

Invested in Capital Assets, Net of Related Debt	\$ (57,755,320)	\$ (48,125,664)
Restricted	6,109,184	9,833,963
Unrestricted	<u>(17,502,021)</u>	<u>(14,557,568)</u>
Total Net Deficit	<u>\$ (69,148,157)</u>	<u>\$ (52,849,269)</u>

While the Total Assets decreased, principally because the County continued to expend funds that had previously been borrowed for remodeling the County Courthouse, Capital Assets increased by a net of \$4,061,027. The increase is made up of expenditures for Capital Assets amounting to \$9,962,175 net of depreciation amounting to \$5,901,148 for the year.

The County's Total Liabilities increased by \$15,143,226 principally due to the debt restructuring the County undertook during 2008, as well as, approximately \$15,300,000 in new borrowing incurred during 2008 to fund the completion of the Courthouse renovations, as well as other County Capital projects.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

**CONDENSED STATEMENT OF GOVERNMENTAL ACTIVITIES
YEAR END DECEMBER 31, 2008 AND 2007**

GOVERNMENTAL ACTIVITIES

	<u>2008</u>	<u>2007</u>
PROGRAM REVENUES:		
CHARGES FOR SERVICES	\$ 53,437,520	\$ 55,755,668
OPERATING GRANTS & CONTRIBUTIONS	44,188,715	42,882,002
CAPITAL GRANTS & CONTRIBUTIONS	3,726,595	2,936,583
GENERAL REVENUES:		
TAX LEVY FOR GENERAL PURPOSES, NET	52,063,696	51,861,608
CONTRIBUTIONS & OTHER	<u>2,198,380</u>	<u>1,377,643</u>
TOTAL REVENUES	155,614,906	154,813,504
EXPENSES:		
GENERAL GOVERNMENT - ADMINISTRATIVE	24,861,604	24,985,154
GENERAL GOVERNMENT - JUDICIAL	19,134,571	17,687,848
CORRECTIONS	31,632,732	31,389,322
PUBLIC WORKS AND ENTERPRISES	11,659,208	9,550,365
HUMAN SERVICES	61,323,707	59,618,917
CULTURE AND RECREATION	4,430,013	6,174,920
CONSERVATION AND DEVELOPMENT	3,017,659	7,108,414
DEPRECIATION	5,901,148	5,705,263
INTEREST - LONG TERM DEBT	<u>9,953,152</u>	<u>7,960,732</u>
TOTAL EXPENSES	<u>171,913,794</u>	<u>170,180,935</u>
CHANGES IN NET ASSETS	(16,298,888)	(15,367,431)
NET DEFICIT, BEGINNING	<u>(52,849,269)</u>	<u>(37,481,838)</u>
NET DEFICIT, ENDING	<u>\$(69,148,157)</u>	<u>\$(52,849,269)</u>

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

**FINANCIAL ANALYSIS OF THE FUNDS
GENERAL FUND (MAJOR FUND)**

The following represents a summary of General Fund revenue, by source, along with changes from 2007.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
TAXES	\$52,694,199	\$52,527,624	\$ 166,575	0%
INTERGOVERNMENTAL	21,603,564	20,762,096	841,468	4.0
CHARGES FOR SERVICE	16,236,053	16,047,707	188,346	1.1
OTHER	853,210	1,246,085	(392,875)	(31.5)
TRANSFERS IN	<u>-</u>	<u>2,816,329</u>	<u>(2,816,329)</u>	<u>(100)</u>
TOTAL REVENUE	<u>\$91,387,026</u>	<u>\$93,399,841</u>	<u>\$(2,012,815)</u>	<u>2.2%</u>

Total revenue in the General Fund actual revenue decreased by 2.2% or \$2,012,815. General Fund tax revenue increased by \$166,575 or less than 1%. Intergovernmental revenues increased by 4% or \$841,468. Transfers in decreased from \$2,816,329 to \$0 while transfers out decreased by \$4,116,129. The 2007 transfers in includes \$2,816,329 from the proceeds of the sale of the Montge Ski Resort. This amount was utilized to make a County pension Annual Required Contribution payment.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

GENERAL FUND (MAJOR FUND)

The following represents a summary of General Fund expenditures, by function, along with changes from 2007.

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
GENERAL GOVERNMENT – ADMINISTRATIVE	\$17,900,597	\$18,580,655	\$(680,058)	(3.66)%
GENERAL GOVERNMENT – JUDICIAL	16,609,353	15,217,622	1,391,731	9.15
PUBLIC SAFETY - CORRECTIONS	25,541,263	25,265,734	275,529	1.10
PUBLIC WORKS	243,639	240,020	3,619	1.50
HEALTH AND HUMAN SERVICES	17,592,405	16,086,877	1,505,528	9.36
CULTURE AND RECREATION	2,280,630	3,138,405	(857,775)	(27.33)
COMMUNITY AND ECONOMIC DEVELOPMENT	594,985	638,060	(43,075)	(6.75)
MISCELLANEOUS	806,199	921,405	(115,206)	(12.50)
TRANSFERS	<u>11,765,671</u>	<u>15,881,800</u>	<u>(4,116,129)</u>	<u>26.00</u>
 TOTAL	 <u>\$93,334,742</u>	 <u>\$95,970,578</u>	 <u>\$(2,635,836)</u>	 <u>(1.54)%</u>

Total expenses (before transfers) increased by \$1,480,293 or 1.8% from 2007 to 2008. The net effect of the amounts on the schedule is that the County expenses and transfers exceeded the County revenues in 2008 by \$1,947,716. This decreased the County fund balance from \$3,487,379 at December 31, 2007 to \$1,539,663 at December 31, 2008.

In total, the General Fund experienced a decrease in expenditures due to cost savings generalized from a governmental reorganization and a reduction in workforce instituted by the new majority County Commissioner.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

HEALTH AND HUMAN SERVICES FUND (MAJOR FUND)

The Health and Human Services Fund accounts for revenues and expenses for the provision of social services within the County. These services include the County Nursing Home, Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund reflected only nominal increases in revenues and expenditures for 2008 principally because, with the exception of the County Nursing Home, the other social services included within this fund are funded predominantly by subsidies from the Federal and State governments and those revenue streams were consistent between 2007 and 2008.

The County Nursing Home is also subjected to reimbursements to a large extent from both the Federal and State governments. Due to continuing deficits at the County Nursing Home, as well as ongoing liability concerns during 2009, the County Commissioners engaged a broker in order to attempt to sell the Nursing Home to a private owner. In September 2009, the County accepted a letter of intent from a private entity to divest itself of the Nursing Home. In March 2010, the County and the private entity closed on an Asset Purchase Agreement, which enabled the County to get out of the Nursing Home business, and thereby reduce any risk of future losses.

Total revenues in 2008 were \$43,775,080 versus \$43,448,998 in 2007 or an increase of \$326,082 or less than 1%.

Total expenditures in 2008 were \$43,289,458 versus \$42,676,587 in 2007 for an increase of \$612,871 or 1.44%.

This resulted in an increase in the deficit fund balance from (\$294,736) at January 1, 2008 to (\$442,409) at December 31, 2008.

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.

**COUNTY OF LACA KAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

CAPITAL PROJECTS FUND (MAJOR FUND)

The County issued \$13,858,652 (Series D of 2008) of General Obligation Notes and \$17,960,000 (Series E of 2008) of General Obligation Bonds. A portion of these issues (\$15,300,000) were used to fund County Capital Projects.

INTERNAL SERVICE 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 funds total assets at December 31, 2008 were \$1,217,909.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of (\$1,436,526) as of December 31, 2008. This is a decrease of \$536,160 in the fund deficit of \$(1,972,686) reported at December 31, 2007.

PENSION TRUST FUND

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced a decrease in net assets of \$31,653,678 during 2008 resulting in Plan assets of \$101,021,754 at December 31, 2008. Plan assets were \$132,675,432 at December 31, 2007.

Plan contributions by members were \$4,302,926 and \$4,184,148 in 2008 and 2007, respectively. Benefits paid to retired members were \$5,609,603 and \$5,268,150 in 2008 and 2007, respectively.

AGENCY FUND

The Agency Fund accounts for assets held by County in a custodial function for the individuals or other governments. The County held \$1,263,770 in that role as of the December 31, 2008.

**COUNTY OF LACAKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

CAPITAL ASSETS

The County investment in capital assets at December 31, 2008 is summarized below:

	January 1, 2008	Additions	Deletions	Transfers	December 31, 2008
Capital assets, not being depreciated:					
Land	\$ 3,051,473	\$ 480,229	\$ -	\$ -	\$ 3,531,702
Construction in Progress	<u>32,080,741</u>	<u>8,129,589</u>	<u>-</u>	<u>(478,396)</u>	<u>39,731,934</u>
 Total Capital Assets, not being depreciated	 <u>35,132,214</u>	 <u>8,609,818</u>	 <u>-</u>	 <u>(478,396)</u>	 <u>43,263,636</u>
Capital assets, being depreciated:					
Building and Improvements	77,341,509	-	-	-	77,341,509
Machinery and Equipment	31,080,811	1,352,357	-	-	32,433,168
Equipment under Capital Lease	1,423,325	-	-	-	1,423,325
Infrastructure	33,154,221	-	-	478,396	33,632,617
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>151,727,433</u>	 <u>1,352,357</u>	 <u>-</u>	 <u>478,396</u>	 <u>153,558,186</u>
Less: Accumulated depreciation:					
Buildings and Improvements	(21,347,393)	(1,929,380)	-	-	(23,276,773)
Machinery and Equipment	(21,285,237)	(3,615,164)	-	-	(24,900,401)
Equipment under Capital Lease	(176,832)	(94,888)	-	-	(271,720)
Infrastructure	(27,670,983)	(119,115)	-	-	(27,790,098)
Investment in Airport	<u>(2,420,570)</u>	<u>(142,601)</u>	<u>-</u>	<u>-</u>	<u>(2,563,171)</u>
 Total accumulated depreciation	 <u>(72,901,015)</u>	 <u>(5,901,148)</u>	 <u>-</u>	 <u>-</u>	 <u>78,802,163</u>
Total Capital Assets being depreciated, net	<u>78,826,418</u>	<u>(4,548,791)</u>	<u>-</u>	<u>478,396</u>	<u>74,756,023</u>
 Governmental Activities capital Assets, net	 <u>\$113,958,632</u>	 <u>\$ 4,061,027</u>	 <u>-</u>	 <u>\$ -</u>	 <u>\$118,019,659</u>

At December 31, 2008, the County has committed to various ongoing construction projects. Total cost related to these projects amount to approximately \$39,700,000 which is included in construction in progress at December 31, 2008. The County is committed to additional costs of approximately \$2,600,000 related to these projects.

LONG TERM DEBT

As of December 31, 2008, the County general obligation debt was \$213,373,652. This amount represents approximately 56% of the legal limit as calculated in 2008.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
DECEMBER 31, 2008**

ECONOMIC CONDITION AND OUTLOOK

In order to better manage Debt Service, the County completed a major debt restructuring in 2008. The County not only realized a one time savings of \$1,000,000 in debt payments in 2008, but also created level annual Debt Service payments. This is critical in managing County finances in these uncertain economic times.

The new administration continues to streamline County government including drastically 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.

In addition, 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.

As the County finds its way through these challenging economic times, it continues its constant analysis of operations, both internally and with its component units to realize the most cost effective manner in which to serve the citizens of Lackawanna County.

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, 2008

	PRIMARY GOVERNMENT	COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	GOVERNMENTAL
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,447,705	\$ 6,272,148
Restricted cash	-	5,839,182
Investments	-	1,357,433
Restricted investments	6,317,175	27,300,124
Accounts receivable, net	1,971,595	158,556,100
Inventory	50,279	-
Due from other governments, net	10,702,239	891,774
Taxes receivable, net	7,148,430	350,415
Other assets	-	768,178
Total current assets	38,637,423	201,335,354
CAPITAL ASSETS, NET	118,019,659	59,236,957
CASH HELD FOR CAPITAL PROJECTS	15,452,987	-
OTHER NONCURRENT ASSETS	-	1,762,068
DEFERRED CHARGES	7,956,790	-
Total assets	180,066,859	262,334,379
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	16,998,917	757,854
Accrued expenses	4,083,192	1,318,321
Current portion:		
Bonds and notes payable	5,210,000	1,005,471
Capital lease obligation	143,277	-
Compensated absences	472,499	476,290
Net pension obligation	1,707,600	-
Due to component units	614,870	-
Due to primary government	-	13,661,549
Deferred revenues	197,674	499,999
Escrow liability	-	24,084,856
Claims payable	2,584,519	-
Other liabilities	-	43,672
Total current liabilities	32,012,548	41,848,012
NONCURRENT LIABILITIES		
Bonds and notes payable, net	207,224,284	15,169,076
Capital lease obligation	935,205	-
Nonrecourse debt issues	-	155,744,941
Net pension obligation	6,241,961	-
Compensated absences	2,801,018	728,155
Total liabilities	249,215,016	213,490,184
NET ASSETS (DEFICIT)		
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(57,755,320)	47,846,201
Restricted	6,109,184	10,665,417
Unrestricted	(17,502,021)	(9,667,423)
Total net assets (deficit)	\$ (69,148,157)	\$ 48,844,195

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

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 government - administrative	\$ (24,861,604)	\$ 3,289,710	\$ 1,097,370		\$ (20,474,524)	
General government - judicial	(19,134,571)	6,804,515	1,557,999		(10,772,057)	
Public safety - corrections	(31,632,732)	11,981,274	187,247		(19,464,211)	
Public works and enterprises	(11,659,208)	4,616,177	2,482,826	\$ 3,389,599	(1,170,606)	
Health and human services	(61,323,707)	23,003,446	37,309,290	336,996	(673,975)	
Culture and recreation	(4,430,013)	2,119,694	-	-	(2,310,319)	
Community and economic development	(3,017,659)	1,622,704	1,553,983	-	159,028	
Unallocated depreciation	(5,901,148)	-	-	-	(5,901,148)	
Interest on long-term debt	(9,953,152)	-	-	-	(9,953,152)	
Total primary government	\$ (171,913,794)	\$ 53,437,520	\$ 44,188,715	\$ 3,726,595	\$ (70,560,964)	
GOVERNMENTAL COMPONENT UNITS						
Scranton Lackawanna Health and Welfare Authority	\$ (16,577,542)	\$ 71,135				\$ (16,506,407)
Lackawanna County Library System	(5,815,040)	250,000	\$ 1,575,589			(3,989,451)
Lackawanna County Redevelopment Authority	(1,466,958)	-	245,673	\$ 1,455,824		234,539
Lackawanna County River Basin Sewer Authority	(6,563,196)	7,836,748	-	581,363		1,854,915
County of Lackawanna Transit System Authority	(8,006,088)	947,470	6,793,592	63,535		(201,491)
Multi-Purpose Stadium Authority of Lackawanna County	(1,137,952)	265,858	-	-		(872,094)
Lackawanna County Performing Arts Center Authority	(949,096)	1,105,313	-	-		156,217
Total governmental component units	\$ (40,515,872)	\$ 10,476,524	\$ 8,614,854	\$ 2,100,722		\$ (19,323,772)
General revenues and transfers						
Taxes levied for general purposes					\$ 52,063,696	\$ 4,186,847
Rental income					-	15,363,316
Interest revenue					676,939	1,676,669
Contributions and other revenue					421,441	967,475
Gain on termination of basis swaps					1,100,000	-
Total general revenues and transfers					54,262,076	22,194,307
Change in net assets					(16,298,888)	2,870,535
Net assets (deficit), beginning					(52,849,269)	45,973,660
Net assets (deficit), ending					\$ (69,148,157)	\$ 48,844,195

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	GENERAL FUND	HEALTH AND HUMAN SERVICES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUNDS	TOTAL
ASSETS						
Cash and cash equivalents	\$ 4,600,762	\$ 1,841,186	\$ 2,369,295	\$ 15,452,987	\$ 3,534,822	\$ 27,799,052
Accounts receivable	-	-	-	73,700	1,897,895	1,971,595
Investments	-	-	-	-	5,201,777	5,201,777
Inventory	-	-	-	-	50,279	50,279
Due from other funds	1,701,015	329,099	-	2,025,967	-	4,056,081
Due from other governments, net	6,038,808	3,338,256	275,175	1,050,000	-	10,702,239
Taxes receivable, net	7,148,430	-	-	-	-	7,148,430
Total assets	\$ 19,489,015	\$ 5,508,541	\$ 2,644,470	\$ 18,602,654	\$ 10,684,773	\$ 56,929,453
LIABILITIES AND FUND BALANCES (DEFICIT)						
LIABILITIES						
Accounts payable	\$ 7,979,249	\$ 3,386,969	\$ 20,153	\$ 3,658,925	\$ 1,950,605	\$ 16,995,901
Accrued liabilities	2,071,119	475,980	-	-	-	2,547,099
Accrued wages payable	1,123,633	295,942	-	-	107,523	1,527,098
Due to other funds	-	1,594,385	467,510	-	1,924,270	3,986,165
Due to component units	464,088	-	-	-	150,782	614,870
Deferred revenue	6,311,263	197,674	-	-	-	6,508,937
Total liabilities	17,949,352	5,950,950	487,663	3,658,925	4,133,180	32,180,070
FUND BALANCES (DEFICIT)						
Unreserved	1,539,663	(442,409)	-	-	-	1,097,254
Reserved	-	-	2,156,807	14,943,729	6,551,593	23,652,129
Total fund balances	1,539,663	(442,409)	2,156,807	14,943,729	6,551,593	24,749,383
Total liabilities and fund balances (deficit)	\$ 19,489,015	\$ 5,508,541	\$ 2,644,470	\$ 18,602,654	\$ 10,684,773	\$ 56,929,453

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 24,749,383
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Net assets (deficit) of the Internal Service Fund are included in governmental activities since they primarily benefit the County's governmental activities.</p>		(1,436,526)
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in government funds.</p>		118,019,659
<p>Deferred revenue in the governmental funds balance sheet includes amounts not available to pay the current period's expenditures and were not considered a current resource.</p>		6,311,263
<p>Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.</p>		7,956,790
<p>Bond refunding costs are deferred and amortized over the life of the underlying bonds in the statement of net assets.</p>		2,663,000
<p>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:</p>		
Bonds and notes payable	\$ (215,097,284)	
Net pension obligation	(6,241,901)	
Capital lease obligation	(1,078,482)	
Compensated absences	(3,273,517)	
		(225,691,184)
<p>Accrued interest payable is included in the statement of net assets.</p>		(1,720,542)
TOTAL DEFICIT - GOVERNMENTAL ACTIVITIES		\$ (69,148,157)

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	MAJOR FUNDS					TOTAL
	GENERAL	HEALTH AND	DEBT	CAPITAL	NON-MAJOR	GOVERNMENTAL
	FUND	HUMAN	SERVICE	PROJECTS	FUNDS	FUNDS
		SERVICES	FUND	FUND		
REVENUES						
Taxes	\$ 52,694,199					\$ 52,694,199
Payments in lieu of taxes	169,844					169,844
Intergovernmental	21,603,564	\$ 21,454,839		\$ 3,872,244	\$ 6,245,546	53,176,193
Charges for service	16,236,053	22,284,599		-	5,307,114	43,827,766
Court costs, fines and forfeitures	5,320	-		-	-	5,320
Interest and rent	678,046	35,642	\$ 128,079	197,066	261,662	1,300,495
Contributions and other	-	-	-	366,110	1,634,897	2,001,007
Total revenues	91,387,026	43,775,080	128,079	4,435,420	13,449,219	153,174,824
EXPENDITURES						
Current						
General government- administrative	17,900,597	-	1,006,739	4,658,944	1,428,602	24,994,882
General government - judicial	16,609,353	-	-	-	2,784,232	19,393,585
Public safety and corrections	25,541,263	-	-	-	6,052,138	31,593,401
Public works and enterprises	243,639	-	-	2,863,280	2,482,159	5,589,078
Health and human services	17,592,405	43,289,458	-	-	323,929	61,205,792
Culture and recreation	2,280,630	-	-	-	3,182,650	5,463,280
Community and economic development	594,985	-	-	-	2,224,030	2,819,015
Miscellaneous expenses	806,199	-	-	-	9,665	815,864
Debt service	-	-	95,338,961	-	-	95,338,961
Capital outlay	-	-	-	9,962,175	-	9,962,175
Total expenditures	81,569,071	43,289,458	96,345,700	17,484,399	18,487,405	257,176,033
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	15,348,087	-	15,348,087
Payments to refunded bond escrow agent	-	-	(26,086,000)	-	-	(26,086,000)
Bond proceeds of refunding bonds	-	-	112,295,565	-	-	112,295,565
Premium on bond issue	-	-	(254,217)	-	-	(254,217)
Bond issue costs	-	-	(5,295,594)	-	-	(5,295,594)
Termination of basis swaps	-	-	1,100,000	-	-	1,100,000
Transfers in	-	-	10,615,145	322,741	2,055,086	12,992,972
Transfers out	(11,765,671)	(633,295)	-	-	(594,006)	(12,992,972)
Total other financing sources (uses)	(11,765,671)	(633,295)	92,374,899	15,670,828	1,461,080	97,107,841
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,947,716)	(147,673)	(3,842,722)	2,621,849	(3,577,106)	(6,893,368)
FUND BALANCES, BEGINNING	3,487,379	(294,736)	5,999,529	12,321,880	10,128,699	31,642,751
FUND BALANCES, ENDING	\$ 1,539,663	\$ (442,409)	\$ 2,156,807	\$ 14,943,729	\$ 6,551,593	\$ 24,749,383

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

TOTAL NET CHANGE IN FUND BALANCES -GOVERNMENTAL FUNDS \$ (6,893,368)

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. 536,160

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 9,962,175

Depreciation expense on capital assets is reported in the statement of activities. (5,901,148)

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. (633,025)

Proceeds from the issuance of bonds payable are considered current financial resources and reported in the funds but not the statement of activities. (127,643,652)

Repayment of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities 111,594,876

Bond issue costs are reported as an expenditure and an other financing use in the governmental funds, and therefore reduces fund balance because current financial resources have been used. These payments are not an expense in the statement of activities. 5,339,269

- Continued -

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Premium on Bond issue is reported as an expenditure and an other financing use in the governmental funds, and therefore reduces fund balance because current financial resources have been used. These payments are not an expense in the statement of activities. 254,217

Governmental funds report outlays for premiums on bond issue and deferred refunding charges as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the term of the debt associated with these deferred charges. 1,329,631

Amortization of deferred refunding charges and write-offs of bond issue costs are reported in the statement of activities as expenses, but not as a change in fund balance of the governmental funds. (2,693,900)

The pension obligation is reported as an expense in the statement of activities of the government-wide statement, but is not reported as expenditures in the governmental funds. This represents the current year net change. (1,395,168)

Accrued interest on bonds is an expenditure in the statement of activities of the government-wide statement, but is not reported as expenditures in governmental funds. This represents the current year change. (114,214)

Compensated absences are reported in the statement of activities, but do not require the use of current financial resources and, therefore, these are not reported as expenditures in governmental funds. This represents the current year change. (40,741)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (16,298,888)

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2008

	<u>INTERNAL SERVICE FUND</u>
<u>ASSETS</u>	
Current assets	
Cash and cash equivalents	\$ 102,511
Investments	<u>1,115,398</u>
Total assets	<u>\$ 1,217,909</u>
<u>LIABILITIES AND NET DEFICIT</u>	
LIABILITIES	
Current liabilities	
Due to other funds	\$ 69,916
Claims payable	<u>2,584,519</u>
Total current liabilities	<u>2,654,435</u>
NET DEFICIT	
Unrestricted	<u>\$ (1,436,526)</u>

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET DEFICIT -
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	INTERNAL SERVICE FUND
OPERATING REVENUES	
Charges for services	<u>\$ 1,091,352</u>
OPERATING EXPENSES	
Workers' compensation claims	396,014
Administrative	<u>160,172</u>
Total operating expenses	<u>556,186</u>
NET OPERATING REVENUE	535,166
NONOPERATING REVENUES	
Interest income	<u>994</u>
CHANGE IN NET DEFICIT	536,160
NET DEFICIT, BEGINNING	<u>(1,972,686)</u>
NET DEFICIT, ENDING	<u><u>\$ (1,436,526)</u></u>

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
DECEMBER 31, 2008

	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 1,091,352
Cash payments for goods and services	(144,412)
Cash payments for insurance claims	<u>(803,240)</u>
Net cash provided by operating activities	<u>143,700</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received for interest	994
Purchase of investments	<u>(43,753)</u>
Net cash utilized by investing activities	<u>(42,759)</u>
NET INCREASE IN CASH	100,941
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,570</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 102,511</u></u>
RECONCILIATION OF NET OPERATING REVENUE TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net operating revenue	\$ 535,166
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Increase or decrease in:	
Accounts payable	(34,132)
Due to other funds	49,892
Claims payable	<u>(407,226)</u>
Net cash provided by operating activities	<u><u>\$ 143,700</u></u>

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

**STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2008**

	PENSION TRUST FUND	AGENCY FUND	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 431,496	\$ 1,263,770	\$ 1,695,266
Accrued interest	441,902	-	441,902
Investments, at fair value			
Federated money market funds	2,026,383	-	2,026,383
U.S. government securities	20,370,590	-	20,370,590
Certificates of deposit	99,249	-	99,249
Corporate bonds	14,533,830	-	14,533,830
Notes and mortgages	5,787,454	-	5,787,454
Common stocks	48,321,018	-	48,321,018
Mutual funds	9,009,832	-	9,009,832
	<u>100,148,356</u>	<u>-</u>	<u>100,148,356</u>
Total investments	<u>100,148,356</u>	<u>-</u>	<u>100,148,356</u>
Total assets	<u>\$ 101,021,754</u>	<u>\$ 1,263,770</u>	<u>\$ 102,285,524</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES			
Escrow liabilities	<u>\$ -</u>	<u>\$ 1,263,770</u>	<u>\$ 1,263,770</u>
NET ASSETS			
Held in trust for pension benefits	<u>\$ 101,021,754</u>	<u>\$ -</u>	<u>\$ 101,021,754</u>

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

	PENSION TRUST FUND
ADDITIONS	
Contributions from plan members	\$ 4,302,926
Total contributions	4,302,926
INVESTMENT INCOME	
Net depreciation in fair value of investments	(34,124,417)
Interest	2,574,535
Dividends	1,645,615
Investment expense	(63,498)
Net investment earnings	(29,967,765)
Total additions	(25,664,839)
DEDUCTIONS	
Benefits paid	5,609,603
Administrative expense	379,236
Total deductions	5,988,839
DECREASE IN NET ASSETS	(31,653,678)
NET ASSETS, BEGINNING	132,675,432
NET ASSETS, ENDING	\$ 101,021,754

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

COMBINING STATEMENT OF NET ASSETS -
DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS
DECEMBER 31, 2008

	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		\$ 64,683	\$ 1,134,681	\$ 3,001,160	\$ 1,368,870	\$ 439,566	\$ 263,188	\$ 6,272,148
Restricted cash	\$ 127,987	-	-	408,333	5,302,676	-	186	5,839,182
Investments	1,281,967	5,357	-	-	70,109	-	-	1,357,433
Restricted investments	22,676,602	-	-	4,623,522	-	-	-	27,300,124
Inventory	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	891,774	-	-	891,774
Other receivables	155,744,941	13,748	204,922	2,262,477	74,297	255,715	-	158,556,100
Taxes receivable, net	-	350,415	-	-	-	-	-	350,415
Other current assets	-	447,827	-	134,943	182,075	3,333	-	768,178
Total current assets	179,831,497	882,030	1,339,603	10,430,435	7,889,801	698,614	263,374	201,335,354
CAPITAL ASSETS NOT BEING DEPRECIATED	-	50,000	-	4,432,562	1,544,489	-	-	6,027,051
CAPITAL ASSETS, net	13	1,003,126	-	20,343,628	6,156,269	17,813,743	7,893,127	53,209,906
OTHER ASSETS	-	-	-	586,097	-	1,175,971	-	1,762,068
Total assets	\$ 179,831,510	\$ 1,935,156	\$ 1,339,603	\$ 35,792,722	\$ 15,590,559	\$ 19,688,328	\$ 8,156,501	\$ 262,334,379
LIABILITIES								
Current liabilities								
Accounts payable		\$ 64,399	-	\$ 348,401	\$ 192,091	\$ 103,618	\$ 49,345	757,854
Accrued expenses	\$ 1,700	-	-	-	1,146,647	15,500	154,474	1,318,321
Current portion of long-term debt	-	-	-	635,471	-	-	370,000	1,005,471
Current portion of compensated absences	-	-	-	125,932	350,358	-	-	476,290
Due to primary government	-	-	\$ 15,000	-	-	13,221,374	425,175	13,661,549
Deferred revenue	-	-	-	-	-	-	499,999	499,999
Escrow liability	24,084,856	-	-	-	-	-	-	24,084,856
Other liabilities	-	43,672	-	-	-	-	-	43,672
Total current liabilities	24,086,556	108,071	15,000	1,109,804	1,689,096	13,340,492	1,498,993	41,848,012
LONG-TERM DEBT, net	-	-	4,783,791	4,614,107	-	-	5,771,178	15,169,076
COMPENSATED ABSENCES, net	-	-	-	236,633	491,522	-	-	728,155
NONRECOURSE DEBT ISSUES	155,744,941	-	-	-	-	-	-	155,744,941
Total liabilities	179,831,497	108,071	4,798,791	5,960,544	2,180,618	13,340,492	7,270,171	213,490,184
NET ASSETS (deficit)								
Invested in capital assets, net of related debt	13	1,053,126	-	19,526,612	7,700,758	17,813,743	1,751,949	47,846,201
Restricted	-	330,700	-	5,031,855	5,302,676	-	186	10,665,417
Unrestricted	-	443,259	(3,459,188)	5,273,711	406,507	(11,465,907)	(865,805)	(9,667,423)
Total net assets (deficit)	13	1,827,085	(3,459,188)	29,832,178	13,409,941	6,347,836	886,330	48,844,195

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2008

	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	\$ 71,135	\$ 250,000		\$ 7,836,748	\$ 947,470	\$ 265,858	\$ 1,105,313	\$ 10,476,524
Real estate taxes	-	3,474,352		-	-	-	-	3,474,352
Tax incremental financing	-	-	\$ 712,495	-	-	-	-	712,495
Rental income	15,363,316	-	-	-	-	-	-	15,363,316
Interest income	1,143,091	26,010	44,793	226,399	224,442	1,579	10,355	1,676,669
Operating grants and contributions	-	1,575,589	245,673	-	6,793,592	-	-	8,614,854
Capital grants and contributions	-	-	1,455,824	581,363	63,535	-	-	2,100,722
Other	-	10,723	96,771	705,474	137,111	17,396	-	967,475
Total revenues	<u>16,577,542</u>	<u>5,336,674</u>	<u>2,555,556</u>	<u>9,349,984</u>	<u>8,166,150</u>	<u>284,833</u>	<u>1,115,668</u>	<u>43,386,407</u>
EXPENSES								
Public works and enterprises	-	5,815,040	-	6,420,662	8,006,088	-	-	20,241,790
Culture and recreation	-	-	-	-	-	-	-	-
Operating expenses	-	-	-	-	-	68,893	520,770	589,663
Community and economic development	-	-	820,692	-	-	-	-	820,692
Debt service	16,456,577	-	646,266	142,534	-	-	-	17,245,377
Other	120,965	-	-	-	-	1,069,059	428,326	1,618,350
Total expenses	<u>16,577,542</u>	<u>5,815,040</u>	<u>1,466,958</u>	<u>6,563,196</u>	<u>8,006,088</u>	<u>1,137,952</u>	<u>949,096</u>	<u>40,515,872</u>
CHANGE IN NET ASSETS	-	(478,366)	1,088,598	2,786,788	160,062	(853,119)	166,572	2,870,535
NET ASSETS (DEFICIT), BEGINNING	<u>13</u>	<u>2,305,451</u>	<u>(4,547,786)</u>	<u>27,045,390</u>	<u>13,249,879</u>	<u>7,200,955</u>	<u>719,758</u>	<u>45,973,660</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ 13</u>	<u>\$ 1,827,085</u>	<u>\$ (3,459,188)</u>	<u>\$ 29,832,178</u>	<u>\$ 13,409,941</u>	<u>\$ 6,347,836</u>	<u>\$ 886,330</u>	<u>\$ 48,844,195</u>

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of operations

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

Financial reporting entity

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

Government-wide financial statements

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

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

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

Fund financial statements

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

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

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

The County reports the following major governmental funds:

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements (Continued)

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

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

The Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation or construction of major capital assets.

The County reports the following nonmajor governmental funds:

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

The County reports the following proprietary fund:

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

The County reports the following fiduciary funds:

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the County's 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.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary data

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

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

Cash and cash equivalents

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

Investments

Investments in all funds of the primary government are stated at fair value based on quoted market prices. Investments held by the Internal Service Fund are 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 by management based on collection history and was \$9,119,000 at December 31, 2008.

Due from other governments

Due from other governments includes an allowance for doubtful accounts in the County's Health and Human Services Fund of \$585,000 at December 31, 2008.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash held for capital projects

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

Capital assets

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

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

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

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

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

Bond issue costs

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Escrow liabilities

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

Compensated absences

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

Derivative financial instrument

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

Self-insurance

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

Fund balance reserves

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

Interfund activity

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets

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

Allocation of indirect expenses

The County does not allocate any indirect expenses 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.

Equity Classifications

Government-Wide Statements

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

- Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations for other governments; or law through constitutional provisions or enabling legislation.
- Unrestricted net assets - all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved could be further split between designated and undesignated. As of December 31, 2008, the County had no designated amount in its unreserved balance.

NOTE B - REPORTING ENTITY

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

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

Blended component units

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

- The Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA") is responsible for developing and implementing a plan for the prevention and treatment of drug and alcohol abuse in Lackawanna County. The LCCDAA receives funding primarily from the Commonwealth of Pennsylvania. This is blended as part of the Health and Human Services Fund.
- The Lackawanna County Solid Waste Management Authority ("LCSWMA") is responsible for implementing the County's recycling program and operates the County recycling center. This is blended as a Special Revenue Fund, a non-major fund of the County.
- The Lackawanna County Area Agency on Aging ("LCAAA") is responsible for providing services to the elderly pursuant to the provisions of agreements with the Pennsylvania Department of Aging. The LCAAA is principally funded through the Aging Services Block Grant agreements with the Pennsylvania Department of Aging. This is blended as a Special Revenue Fund as part of the Health and Human Services Fund.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE B - REPORTING ENTITY (Continued)

Discretely presented component units

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

- The Scranton Lackawanna Health and Welfare Authority (“SLHWA”) acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System (“LCLS”) oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.
- The Lackawanna County Redevelopment Authority (“LCRA”) administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the LCRA.
- The Lackawanna County River Basin Sewer Authority (“LCRBSA”) owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LCRBSA. The County has also guaranteed 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, 2008.
- The Multi-Purpose Stadium Authority of Lackawanna County (“MPSA”) operates the Lackawanna County Multi-Purpose Stadium. The County Commissioners appoint the governing board of the MPSA. The MPSA owes the County approximately \$5,113,389 for which the County has reserved the entire balance.
- The Lackawanna County Performing Arts Center Authority (“LCPACA”) operates a performing arts amphitheatre. The County Commissioners appoint the governing board of the LCPACA. The County has also guaranteed the long-term debt of the LCPACA. The long-term debt outstanding at December 31, 2008 was \$6,141,178.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE B - REPORTING ENTITY (Continued)

Related organizations

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

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

Joint ventures

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

- Wilkes-Barre/Scranton International Airport ("Airport"). A joint venture with the County of Luzerne, the County Commissioners of each county serve as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2008, the County did not provide operating capital to the airport. In 2004, the County loaned the Airport \$900,000 for completion of the new terminal, which is still outstanding at December 31, 2008. This loan does not have a stated interest date and does not contain repayment terms. The County has included a net investment in Airport of \$6,164,000 in its capital assets at December 31, 2008.
- Lackawanna Susquehanna Mental Health / Mental Retardation Program. A joint venture with the County of Susquehanna, the Commissioners of each county appoint members of the governing board. The County has no equity interest in this joint venture but does provide an annual match of funds. The Commonwealth of Pennsylvania primarily funds the joint venture. Approximately \$519,000 was provided in 2008.

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

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE C - 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).

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS
(Continued)**

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, 2008, the bank balance of the County's deposits with financial statements, including cash equivalents, was approximately \$37,134,000. Approximately \$20,089,000 of the County's deposits was exposed to custodial credit risk and was uninsured. In accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended, such funds are collateralized by securities pledged by the financial institutions.

Investments

As of December 31, 2008 the County's investments are classified as restricted cash and investments. Federated money market funds and certificates of deposit are carried at cost which approximates fair value at December 31, 2008. Investments are carried at fair market value and consist of the following:

<u>GOVERNMENTAL FUNDS</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
U.S. governmental agency	1-10 years	\$2,321,629
Federated money market funds		3,090,507
Certificates of deposit	≥ 1 year	<u>905,039</u>
Total		<u>\$6,317,175</u>

<u>PENSION TRUST FUND</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Domestic Common stock		\$ 48,321,018
U.S. government obligations	6-30 years	20,370,590
Mutual funds		9,009,832
Corporate bonds	1-30 years	14,533,830
Certificates of deposit	≥ 1 year	99,249
Federated money market funds		2,026,383
Notes and mortgages	6-30 years	<u>5,787,454</u>
Total		<u>\$100,148,356</u>

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS
(Continued)**

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, 2008, no one issuer totaled more than five percent of the Pension Trust Fund's net assets or the County's total investments, respectively. The County's investment policy requires all investments in bond securities to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

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

The investments of the Pension Trust Fund in debt securities were rated as follows at December 31, 2008:

<u>INVESTMENT</u>	<u>S&P RATING</u>	<u>%</u>
Corporate bonds	Aaa	32.92%
Corporate bonds	Aa1	3.50
Corporate bonds	Aa2	1.00
Corporate bonds	Aa3	5.73
Notes and mortgages	A	1.94
Corporate bonds	A1	10.39
Corporate bonds	A2	18.96
Corporate bonds	A2e	4.31
Corporate bonds	A3	8.86
Corporate bonds	Baa1	7.12
Corporate bonds	Baa2e	.74
Corporate bonds	Baa2	2.88
Corporate bonds	Baa3	1.65
Total		<u>100.00%</u>

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE D - REAL ESTATE TAXES

The total tax on real estate in 2008 was 39.998 mills (\$39.998 per \$1,000) of assessed valuation). Of this amount, 36.498 mills were levied for general and debt service purposes, 2.5 mills were levied for library services in the County and 1.0 mill was levied for culture and education fund purposes. Amounts collected for library services are remitted to the LCLS.

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

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

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

Delinquent real estate taxes receivable at December 31, 2008 were approximately \$16,267,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$9,119,000.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE E - CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2008 was as follows:

	January 1, <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	December 31, <u>2008</u>
Capital assets not being depreciated:					
Land	\$ 3,051,473	\$ 480,229	\$ -	\$ -	\$ 3,531,702
Construction-in-progress	<u>32,080,741</u>	<u>8,129,589</u>	<u>-</u>	<u>(478,396)</u>	<u>39,731,934</u>
Total capital assets, not being depreciated	<u>35,132,214</u>	<u>8,609,818</u>	<u>-</u>	<u>(478,396)</u>	<u>43,263,636</u>
Capital assets being depreciated:					
Buildings and improvements	77,341,509	-	-	-	77,341,509
Machinery and equipment	31,080,811	1,352,357	-	-	32,433,168
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	33,154,221	-	-	478,396	33,632,617
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>151,727,433</u>	<u>1,352,357</u>	<u>-</u>	<u>478,396</u>	<u>153,558,186</u>
Less accumulated depreciation for:					
Buildings and improvements	(21,347,393)	(1,929,380)	-	-	(23,276,773)
Machinery and equipment	(21,285,237)	(3,615,164)	-	-	(24,900,401)
Equipment under capital lease	(176,832)	(94,888)	-	-	(271,720)
Infrastructure	(27,670,983)	(119,115)	-	-	(27,790,098)
Investment in airport	<u>(2,420,570)</u>	<u>(142,601)</u>	<u>-</u>	<u>-</u>	<u>(2,563,171)</u>
Total accumulated depreciation	<u>(72,901,015)</u>	<u>(5,901,148)</u>	<u>-</u>	<u>-</u>	<u>(78,802,163)</u>
Total capital assets being depreciated, net	<u>78,826,418</u>	<u>(4,548,791)</u>	<u>-</u>	<u>478,396</u>	<u>74,756,023</u>
Governmental activities capital assets, net	<u>\$113,958,632</u>	<u>\$4,061,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$118,019,659</u>

At December 31, 2008, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$39,700,000, which is included in construction in progress at December 31, 2008. The County is committed to additional costs of approximately \$2,600,000 related to these projects.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE F - LONG-TERM OBLIGATIONS

Governmental Activities

During 1995, the County issued \$725,000 of general obligation bonds (Series B of 1995) to repay a 1994 bank loan. These bonds are due in varying annual installments plus interest at rates ranging from 6.00% to 7.25%, with final maturity scheduled for 2009. Principal due in 2009 is \$80,000.

During 1999, the County issued \$27,865,000 of general obligation bonds (Series A of 1999) to refund a 1993 bond issue, advance refund portions of bond issues from 1994, 1996 and 1997, as well as finance capital projects. These bonds were due in varying annual installments plus interest at rates ranging from 3.00% to 5.00%. Advance funding was paid to the paying agent which defeased the bond in December 2008.

During 1999, the County issued \$5,225,000 of general obligation bonds (Series B of 1999) to fund construction of an amphitheatre. These bonds are due in varying annual installments plus interest at 6.3%, with final maturity scheduled for 2019. In 2002, the County transferred \$4,000,000 of the bonds to the Lackawanna County Performing Arts Center Authority, a component unit of the County. Principal due in 2009 is \$60,000.

During 2002, the County issued \$19,540,000 of general obligation bonds (Series A of 2002) to refund a 1992 and a 1995 bond issue and finance various capital projects. These bonds are due in varying annual installments plus interest at rates ranging from 2.000% to 5.125%, with final maturity scheduled for 2020. These bonds were partially advance refunded. Advance funding was paid to the paying agent which defeased a portion of the bonds in August 2008. There is no principal due in 2009.

During 2004, the County issued \$10,110,000 of general obligation bonds (Series A of 2004) to currently refund a 1994 bond issue, finance various capital projects, and fund a deposit to the Debt Service Fund. These bonds are due in varying annual installments plus interest at rates ranging from 2.00% to 5.00%, with final maturity scheduled for 2015. Principal due in 2009 is \$1,055,000.

During 2004, the County issued \$4,210,000 of general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments beginning in 2008 plus interest at rates ranging from 3.76% to 5.35%, with final maturity scheduled for 2019. Principal due in 2009 is \$420,000.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE F - LONG-TERM OBLIGATIONS (Continued)

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, 2008), with final maturity scheduled for 2014. Principal due in 2009 is \$1,950,000.

During 2005, the County issued \$38,650,000 of general obligation bonds (Series B of 2005) to advance refund a 1997 bond issue and a portion of the 2002 Series A general obligation bonds. These bonds were due in varying annual installments plus monthly interest at a variable rate (3.5% at December 31, 2008), with final maturity scheduled for 2020. Advanced funding was paid to the paying agent which defeased the bonds in August 2008.

During 2006, the County issued \$41,365,000 of general obligation bonds (Series A of 2006) to currently refund the 2005 Series A bond issue and to finance various capital projects. These bonds were due in varying annual installments plus monthly interest at a variable rate, with final maturity scheduled for 2029. Advance funding was paid to the paying agent which defeased the bonds in August 2008.

During 2007, the County issued \$21,090,000 of general obligation bonds (Series A of 2007) to finance various capital projects. The bonds are due in varying annual installments plus interest at rates ranging from 4.00% to 5.00%, with final maturity scheduled for 2029. Principal due in 2009 is 650,000.

During 2007, the County issued \$33,735,000 of general obligation bonds (Series B of 2007) to currently refund all or a portion of the Series A of 2004, Series B of 2004, and Series B of 1999 bond issues. The bonds are due in varying annual installments plus interest at rates ranging from 4.00% to 5.00%, with final maturity scheduled for 2029. Principal due in 2009 is \$980,000.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE F - LONG-TERM OBLIGATIONS (Continued)

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 (6.50% at December 31, 2008 for Series A and C of 2008 and 4.00% at December 31, 2008 for Series B of 2008) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 general obligation bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction. Principal due in 2009 on these bonds is \$15,000.

During 2008, the County issued \$13,858,652 (Series D of 2008) of zero coupon general obligation notes and \$17,960,000 (Series E of 2008) of general obligation bonds. The proceeds of the Series D notes and Series E bonds were used to advance refund a portion of the County's Series A of 1999 general obligation bonds and to finance various capital projects. The Series D of 2008 notes are due in varying installments that yield to maturity at rates ranging from 5.14% to 7.50% with final maturity scheduled for July 2023. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 3.50% to 6.125% with final maturity scheduled for January 2022. There is no principal due on these bonds in 2009.

The County and the County of Luzerne have divided and assumed equal amounts of the debt of Northeastern PA Sports Development Corporation ("NPSDC"), the entity established to purchase the professional baseball team that utilizes the multi-purpose stadium owned and operated by the MPSA. The debt required monthly payments of \$9,248, including interest at a rate of 7.85% through January of 2008. The County's portion of the monthly payment was \$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. This note was paid in full in January 2008.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE F - LONG-TERM OBLIGATIONS (Continued)

The following summarizes the changes in bonds and note payable in 2008:

	Balance January 1, <u>2008</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2008</u>	Due Within <u>One Year</u>
Bonds:					
Series B of 1995	\$ 150,000	-	\$ (70,000)	\$ 80,000	\$80,000
Series A of 1999	21,345,000	-	(21,345,000)	-	-
Series B of 1999	935,000	-	(55,000)	880,000	60,000
Series A of 2002	12,230,000	-	(6,210,000)	6,020,000	-
Series A of 2004	8,570,000	-	(1,025,000)	7,545,000	1,055,000
Series C of 2004	4,195,000	-	(320,000)	3,875,000	420,000
Series D of 2004	14,945,000	-	(1,880,000)	13,065,000	1,950,000
Series B of 2005	38,625,000	-	(38,625,000)	-	-
Series A of 2006	41,365,000	-	(41,365,000)	-	-
Series A of 2007	21,090,000	-	-	21,090,000	650,000
Series B of 2007	33,735,000	-	(550,000)	33,185,000	980,000
Series A of 2008	-	44,540,000	(5,000)	44,535,000	5,000
Series B of 2008	-	44,540,000	(5,000)	44,535,000	5,000
Series C of 2008	-	6,745,000	-	6,745,000	5,000
Series D of 2008	-	13,858,652	-	13,858,652	-
Series E of 2008	-	17,960,000	-	17,960,000	-
Notes:					
NPSDC Note	<u>3,124</u>	<u>-</u>	<u>(3,124)</u>	<u>-</u>	<u>-</u>
	197,188,124	127,643,652	(111,458,124)	213,373,652	5,210,000
Bond premiums, discounts and deferred refunding	<u>918,195</u>	<u>1,423,548</u>	<u>(3,281,111)</u>	<u>(939,368)</u>	<u>-</u>
Total	<u>\$198,106,319</u>	<u>\$129,067,200</u>	<u>\$(114,739,235)</u>	<u>\$212,434,284</u>	<u>\$5,210,000</u>

Interest paid on these bonds and notes was \$8,677,708 in 2008.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE F - LONG-TERM OBLIGATIONS (Continued)

Advance Refunding/Defeasance

In August 2008, \$38,625,000 of the Series B of 2005 and \$41,365,000 of the Series A of 2006 bonds were currently refunded by depositing the proceeds of the Series A and B of 2008 bonds, which each had an aggregate principal amount of \$44,540,000, to the paying agent (M&T Bank) after the payment of issuance costs of approximately \$3,772,000. As a result of this transaction, the original Series B of 2005 and Series A of 2006 bonds are considered defeased and the liability of those bonds have been removed from the County's financial statements. The County recognized an economic loss from this defeasance amounting to approximately \$12,321,000 and a negative future cash flow difference of approximately \$62,920,000. Additionally, the balance of unamortized bond issuance costs of the Series B of 2005 and Series A of 2006 bonds amounting to \$1,753,729 and \$444,199, respectively, was expensed during 2008 in the government-wide financial statements as interest expense.

In August 2008, \$6,210,000 of the Series A of 2002 bonds were partially advance refunded by depositing a portion of the Series C of 2008 bond proceeds, into an irrevocable trust with an escrow agent (First Liberty Bank) after the payment of issuance costs of approximately \$309,000. As a result of this transaction, a portion of the original Series A of 2002 bonds are considered defeased and the liability of those bonds have been removed from the County's financial statements. The County recognized an economic gain from this defeasance amounting to approximately \$784,000 and a negative future cash flow difference of approximately \$6,800,000. The outstanding balance of the defeased debt as of December 31, 2008 is \$5,115,000. There were no unamortized bond issue costs at the time of bond defeasance.

In December 2008, \$19,845,000 of the Series A of 1999 bonds were advance refunded by depositing a portion of the Series D & E of 2008 bond proceeds, \$13,231,925 and \$7,087,875, respectively, into an irrevocable trust with an escrow agent (Penn Security Bank) and making the scheduled 2008 principal and interest payments of \$2,481,850 after the payment of issuance costs of approximately \$1,214,000. As a result of this transaction, the original Series A of 1999 bonds are considered defeased and the liability of those bonds have been removed from the County's financial statements. The County recognized an economic loss from this defeasance amounting to approximately \$6,213,000 and a negative future cash flow difference of \$48,000,000. The outstanding balance of the defeased debt as of December 31, 2008 is \$19,845,000. There were no unamortized bond issue costs at the time of bond defeasance.

The refundings discussed above resulted in differences between the reacquisition prices and the net carrying amounts of the old debt of \$2,899,000 in total. These differences, reported in the accompanying financial statements as a deduction from bonds payable, are being charged to operations through the year 2022 on a straight-line basis.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE F - LONG-TERM OBLIGATIONS (Continued)

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 J), as of December 31, 2008. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swap, Net</u>	<u>Total</u>
2009	\$ 5,210,000	\$ 7,559,350	\$ 3,302,943	\$ 16,072,294
2010	6,180,000	7,519,344	3,305,518	17,004,862
2011	6,445,000	7,369,154	3,305,151	17,119,305
2012	6,625,538	7,208,779	3,307,724	17,142,041
2013	6,462,971	7,223,665	3,301,480	16,988,116
2014-2018	35,626,375	32,757,345	16,516,599	84,900,319
2019-2023	34,328,768	26,199,558	22,705,770	83,234,096
2024-2028	50,570,000	19,612,423	42,581,952	112,764,375
2029-2033	45,125,000	7,855,381	44,496,778	97,477,159
2034-2035	<u>16,800,000</u>	<u>961,268</u>	<u>18,003,094</u>	<u>35,764,362</u>
Total	<u>\$213,373,652</u>	<u>\$ 124,266,267</u>	<u>\$ 160,827,009</u>	<u>\$498,466,929</u>

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2008:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying semi-annual installments plus interest at 7.5%, maturing 2011	\$ 3,434,276
Term note, due in varying semi-annual installments plus interest at 6.5%, maturing 2012	<u>1,349,515</u>
Total	<u>4,783,791</u>

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE F - LONG-TERM OBLIGATIONS (Continued)

	<u>Amount</u>
<u>Lackawanna River Basin Sewer Authority</u>	
Guaranteed Sewer Revenue Refunding Bonds, Series 2004, due in varying annual installments plus interest at rates ranging from 2.8% to 5.25%; final maturity scheduled for 2011. Reported net of unamortized discount of \$23,403	\$ 3,005,000
PENNVEST note, due in monthly installments of \$17,432 including interest at 1%; maturing 2011	465,214
General obligation note of 2007, due in varying annual installments plus interest at 5.00%; final maturity scheduled for 2010	<u>1,902,250</u>
Total	<u>5,372,464</u>
<u>Lackawanna County Performing Arts Center Authority</u>	
General obligation bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.87% to 7.00%; final maturity scheduled for 2018. Reported net of unamortized discount of \$18,822	2,890,000
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	<u>3,270,000</u>
Total	<u>6,160,000</u>
TOTAL	<u>\$16,316,255</u>

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE F - LONG-TERM OBLIGATIONS (Continued)

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>
2009	\$ 2,655,537
2010	4,616,598
2011	1,851,168
2012	1,467,952
2013	975,000
2014-2018	3,650,000
2019-2020	<u>1,100,000</u>
Total	<u>\$16,316,255</u>

Long-term bonds payable are reported net of original issue discount of \$141,708 on the combining balance sheet – discretely presented component units.

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, 2008, there were six general obligation bond issues outstanding and eight notes and mortgages outstanding with an aggregate balance of \$155,744,941.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE G - CAPITAL LEASE PAYABLE

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

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

Balance, January 1, 2008	\$1,215,234
Decrease	<u>(136,752)</u>
Balance, December 31, 2008	1,078,482
Less: current portion	<u>143,277</u>
Long-term portion of capital lease payable	\$ <u>935,205</u>

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

The following is a summary of future minimum lease payments required under the capital lease along with the present value of the net minimum lease payments as of December 31, 2008:

<u>Years ending December 31,</u>	<u>Amount</u>
2009	\$ 190,617
2010	190,617
2011	190,617
2012	190,617
2013	190,617
2014-2015	<u>301,809</u>
Total minimum lease payments	1,254,894
Less: amounts representing interest	<u>(176,412)</u>
Present value of net minimum lease payments	<u>\$1,078,482</u>

Total interest paid on this capital lease in 2008 was \$53,866.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE H - COMPENSATED ABSENCES

The changes in the County's compensated absences in 2008 are summarized as follows:

Balance January 1, 2008	\$3,232,776
Change, net	<u>40,741</u>
Balance, December 31, 2008	3,273,517
Less: current portion	<u>472,499</u>
Long-term compensated absences	<u>\$2,801,018</u>

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

NOTE I - PENSION PLANS

Plan description

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

Membership of the Plan consisted of the following at December 31, 2008, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	480
Terminated plan members entitled to but not yet receiving benefits	126
Active plan members	<u>1,390</u>
Total	<u>1,996</u>
Number of participating employers	<u>1</u>

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE I - PENSION PLANS (Continued)

Plan description (Continued)

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

The annual pension cost was \$1,395,168, the annual required contributions ("ARC") was \$1,707,600, the interest on the net pension obligation was \$491,579 and the ARC adjustment was \$804,071 which are based on an actuarial valuation using the entry age method. There were no contributions to the Plan in 2008. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%; and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

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

Historical trend information for the Plan is presented below:

	Annual Required Contribution <u>(ARC)</u>	County Contribution	Percentage of ARC <u>Contributed</u>	Net Pension <u>Obligation</u>
12/31/06	\$2,317,365	\$2,856,077	123%	\$4,676,271
12/31/07	2,099,854	-	0%	6,554,393
12/31/08	1,707,660	-	0%	7,949,561

Information regarding the Plan can be obtained from the County.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE J - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS

Objective of the interest rate swaps

As a means to manage interest rate exposure, the County entered into various interest rate swap agreements to effectively change the County's variable interest rate on certain bonds to a synthetic fixed rate. In addition, to mitigate some of the risks inherent in the variable to fixed rate swaps the County had entered into variable to variable basis swaps in connection with the same bonds. In April 2008, the County terminated the basis swaps on its Series B of 2005 and Series A of 2006 general obligation bonds. The County received cash consideration of \$1,100,00 upon termination.

Terms

During 2008, the County entered into a pay-fixed, receive-variable interest rate swap agreement and with PNC Bank, National Association on its Series A and B 2008 general obligation notes. The agreement terminates on September 1, 2035. The notional value of the swap at inception was \$89,080,000 and at December 31, 2008 was \$89,070,000. The effect of the swap requires the County to receive a variable payment based on 63% of One-Month LIBOR (0.43625% at December 31, 2008) plus a fixed spread of 25 basis points (0.35%) and to pay a fixed rate of 3.7875% on the 1st of each month. The swap creates a synthetic fixed coupon on the Series A and B 2008 general obligation notes equal to the fixed swap rate of 3.7875% at December 31, 2008.

Fair Value

At December 31, 2008, the swap had a fair value as follows:

2008 Series A & B:	
Rate Swap	\$ (25,768,308)

The fair value was provided by Financial S&Lutions LLC and is based on a proprietary model.

Credit Risk

As of December 31, 2008, the County was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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

Credit Risk (Continued)

If the County's long-term credit rating is downgraded in the future, the counterparty could result in a termination event if the County does not post the amount of collateral needed to secure its obligations under the terms of the swap. In the event that the County cannot post an amount of collateral required the counterparty will have the ability to obligate the County to terminate the swap at the then current market rate.

Basis Risk / Interest Rate Risk

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

Termination risk

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

Rollover Risk

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**NOTE J - DERIVATIVE FINANCIAL INSTRUMENTS - INTEREST RATE SWAPS
(Continued)**

Term and Notional Amount

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

NOTE K - DEFICIT BALANCES

The Health and Human Services Fund has a net deficit of \$442,409 at December 31, 2008. This deficit is the result of the Lackawanna Health Care Center which operated at a deficit for the year ending December 31, 2008.

The Internal Service Fund has a net deficit of \$1,436,526 at December 31, 2008.

The individual non-major funds that had net deficit balances at December 31, 2008 were the Liquid Fuels Fund \$(998,000), the Community and Development Fund \$(139,000), and the Help America Vote Act Fund \$(486,000).

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of \$3,459,188 at December 31, 2008. The deficit resulted from the financing of the PEI Power Park infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Redevelopment Authority anticipates the deficit to be substantially eliminated by the year 2011 when the notes mature.

NOTE L - SELF INSURANCE

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

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE L - SELF INSURANCE (Continued)

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 2008 are as follows:

Balance, January 1, 2008	\$2,991,745
Claims incurred	396,014
Claims paid	<u>(803,240)</u>
Balance, December 31, 2008	<u>\$2,584,519</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.

NOTE M - INTERFUND BALANCES/TRANSFERS

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2008 are as follows:

	Due From Other <u>Funds</u>	Due To Other <u>Funds</u>
General Fund	\$1,701,015	-
Health and Human Services Funds	329,099	\$1,594,385
Debt Service Fund	-	467,510
Capital Projects Fund	2,025,967	-
Non-Major Funds	-	1,924,270
Internal Service Fund	<u>-</u>	<u>69,916</u>
Totals	<u>\$4,056,081</u>	<u>\$4,056,081</u>

The amounts due to the General Fund are generally for payroll. All of these items were repaid in 2009.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE M - INTERFUND BALANCES/TRANSFERS (Continued)

Interfund transfers in 2008 are summarized as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
General Fund:		
Debt Service Fund	\$ -	\$9,710,585
Non-Major Funds	<u>-</u>	<u>2,055,086</u>
Total General Fund	<u>-</u>	<u>11,765,671</u>
Health and Human Services Fund:		
Debt Service Fund	<u>-</u>	<u>633,295</u>
Debt Service Fund:		
General Fund	9,710,585	-
Capital Projects Fund	-	-
Health and Human Services Fund	633,295	-
Non-Major Funds	<u>271,265</u>	<u>-</u>
Total Debt Service Fund	<u>10,615,145</u>	<u>-</u>
Capital Projects Fund:		
Non Major	<u>322,741</u>	<u>-</u>
Total Capital Projects Fund	<u>322,741</u>	<u>-</u>
Non-Major Funds:		
General Fund	2,055,086	-
Capital Projects Funds	-	322,741
Debt Service Fund	<u>-</u>	<u>271,265</u>
	<u>\$12,992,972</u>	<u>\$12,992,972</u>

Transfers out by the General Fund were primarily for debt service and operational costs.

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE M - INTERFUND BALANCES/TRANSFERS (Continued)

Transfers in to the Debt Service Fund were primarily used for debt service.

Transfers in to the Non-Major Funds were primarily used for operational costs, while transfers out were primarily for debt service.

Due from/to component units

At December 31, 2008, the County owed the COLTS \$531,758 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2008, the amounts shown in the component unit financial statements do not agree to the governmental activities.

The County has advanced \$5,113,389 to the MPSA primarily to fund MPSA's debt service payments and capital projects. Based on the current financial condition of MPSA, the County does not believe MPSA has the current ability to repay this advance and, accordingly, has recorded an allowance for the entire amount.

NOTE N - 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. Although an out-of-court settlement is anticipated, on the basis of demands for settlement which range between \$1,000,000 and \$2,000,000, the County believes that it has adequate insurance coverage through several policies available for these claims.

COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE O - POSTEMPLOYMENT BENEFITS

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

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

NOTE P - SIGNIFICANT EVENTS

On or about March 16, 2010, the Grand Jury sitting for the Middle District of Pennsylvania returned a forty (40) count Indictment against former Lackawanna County Commissioner Robert C. Cordaro ("Cordaro") and current Minority Commissioner Anthony J. Munchak ("Munchak").

The charges in the Indictment are for the time period during which Commissioner Robert Cordaro and Commissioner Anthony J. 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.

It is noted that both former Commissioner Cordaro and current Commissioner Munchak are vigorously defending the charges brought against them by the United States Attorneys office as set forth in the Indictment. A trial date had been set for October 25, 2010.

The summary below of the disclosures referencing the Indictment will only refer to those Counts specifically against minority Commissioner Anthony J. Munchak.

Counts 1 through 8 of the Indictment charged Defendants' Cordaro and Munchak with Honest Services Mail Fraud and Mail Fraud. Count 14 of the Indictment is a conspiracy charge against Defendants' Cordaro and Munchak alleging that they each conspired and agreed to commit theft or bribery concerning programs receiving Federal Funds in violation of United States Law. Counts 15 through 18 of the Indictment charge Cordaro and Munchak with theft or bribery concerning the programs receiving Federal Funds. Count 19 of the Indictment against former Commissioner Cordaro and current Commissioner Munchak allege conspiracy to commit extortion under color of right; Counts 20 through 23 allege

**COUNTY OF LACKAWANNA, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE P - SIGNIFICANT EVENTS (Continued)

extortion under color of right, as these charges also allege that Commissioner Munchak received the sum in excess of \$30,000 from principals of an unnamed company. Count 28 is a racketeering charge against Defendants' Cordaro and Munchak. The charges include receipt of payments from unnamed vendors to both former Commissioner Cordaro and current Commissioner Munchak. Count 29 is a racketeering conspiracy charge against Defendants' Cordaro and Munchak. The racketeering charge relates back to the charges set forth in the racketeering charge at Count 28 of the Indictment. Count 33 of the Indictment charged Munchak with filing a false Tax Return for calendar year 2005. Count 36 is a tax evasion charge against Munchak for calendar year 2005 which alleges that Munchak knew his taxable income for calendar year 2005 was substantially in excess of the amount stated on his Return and upon the additional taxable income a substantive additional tax is due and owing to the United States of America. Count 37 of the Indictment is a charge of conspiracy to commit Honest Services Mail Fraud and Mail Fraud against Defendants' Cordaro and Munchak. Count 38 of the Indictment is a RICO forfeiture charge against both Defendants' Cordaro and Munchak demanding that the Defendants shall forfeit all the interest acquired and maintained in violation of Federal Law; all interest in securities of and claims against property received illegally; and orders that in the event that the property taken cannot be found the Defendants shall forfeit substitute property of an equal value. The last count against Commissioner Munchak is Count 40 for forfeiture-mail and wire fraud.

The Indictment, regardless of the outcome of the trial, will have no adverse material impact on the County, its financial condition or the County's ability to pay any of its current or future outstanding obligations.

NOTE Q - SUBSEQUENT EVENTS

In March 2010, the County completed the sale of the Lackawanna County Health Care Center for \$13,400,000 to a private ownership group.

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

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

COUNTY OF LACKAWANNA, PENNSYLVANIA

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
GENERAL, LIQUID FUELS AND DEBT SERVICE FUNDS BUDGET AND ACTUAL (BUDGETARY MODIFIED CASH BASIS) - UNAUDITED
FOR THE YEAR ENDED DECEMBER 31, 2008

	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	\$ 42,992,373	45,059,041	\$ 2,066,668				\$ 10,675,560	10,339,970	\$ (335,590)
Payments in-lieu of taxes	252,055	169,844	(82,211)				-	-	-
Grants	22,710,930	20,681,422	(2,029,508)	\$ 965,000	\$ 2,359,875	\$ 1,394,875	-	-	-
Charges for services	20,374,169	16,236,053	(4,138,116)	-	-	-	-	-	-
Interest and rent	725,000	678,046	(46,954)	22,000	6,957	(15,043)	175,000	128,079	(46,921)
Fines and forfeitures	10,000	5,320	(4,680)	-	-	-	-	-	-
Contributions and other	-	-	-	2,000	3,719	1,719	2,141,000	-	(2,141,000)
Total receipts	87,064,527	82,829,726	(4,234,801)	989,000	2,370,551	1,381,551	12,991,560	10,468,049	(2,523,511)
DISBURSEMENTS									
General government - administrative	21,740,440	17,181,369	4,559,071				-	1,015,001	(1,015,001)
General government - judicial	16,284,155	16,410,590	(126,435)				-	-	-
Public safety	27,337,332	25,235,612	2,101,720				-	-	-
Public works	248,346	240,723	7,623	1,234,546	2,552,439	(1,317,893)	-	-	-
Human services	18,134,967	17,381,878	753,089	-	-	-	-	-	-
Culture and recreation	3,229,439	2,253,338	976,101	-	-	-	-	-	-
Conservation and development	614,911	587,865	27,046	-	-	-	-	-	-
Miscellaneous expense	905,091	796,551	108,540	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	16,782,902	96,690,644	(79,907,742)
Total disbursements	88,494,681	80,087,926	8,406,755	1,234,546	2,552,439	(1,317,893)	16,782,902	97,705,645	(80,922,743)
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS BEFORE OTHER FINANCING SOURCES (USES)	(1,430,154)	2,741,800	4,171,954	(245,546)	(181,888)	63,658	(3,791,342)	(87,237,596)	(83,446,254)
OTHER FINANCING SOURCES (USES)									
Bond proceeds, net	-	-	-	-	-	-	-	83,798,325	83,798,325
Transfers in	-	-	-	-	-	-	1,684,782	-	(1,684,782)
Transfers out	-	(3,588,858)	(3,588,858)	-	-	-	-	-	-
Total other financing sources (uses), net	-	(3,588,858)	(3,588,858)	-	-	-	1,684,782	83,798,325	82,113,543
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(1,430,154)	(847,058)	583,096	(245,546)	(181,888)	63,658	(2,106,560)	(3,439,271)	(1,332,711)
FUND BALANCE, BEGINNING	2,620,776	1,911,531	(709,245)	370,494	460,913	90,419	2,132,642	5,808,568	3,675,926
FUND BALANCE, ENDING	\$ 1,190,622	\$ 1,064,473	\$ (126,149)	\$ 124,948	\$ 279,025	\$ 154,077	\$ 26,082	\$ 2,369,297	\$ 2,343,215

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
UNAUDITED
DECEMBER 31, 2008**

NOTE 1 - RECONCILIATION OF BUDGETARY CASH BASIS TO GAAP BASIS

A reconciliation of the County's budgetary cash basis to GAAP basis for 2008 is as follows:

	<u>General Fund</u>	<u>Liquid Fuels</u>	<u>Debt Service</u>
Excess (deficiency) of revenues and expenditures (budgetary cash basis)	\$ (847,058)	\$ (181,888)	\$(3,439,271)
Reversal of prior year:			
Receivables	(16,180,583)	-	(263,053)
Liabilities	18,141,024	1,347,162	72,090
Record current year:			
Receivables	14,888,253	-	275,175
Liabilities	<u>(17,949,352)</u>	<u>1,276,882</u>	<u>(487,663)</u>
Excess (deficiency) of revenues over expenditures (GAAP basis)	<u>\$ (1,947,716)</u>	<u>\$ (111,608)</u>	<u>\$(3,842,722)</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, 2008

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)
1/1/05	\$ 94,225,794	\$ 106,277,698	\$ 12,051,904	88.7%	\$ 43,311,008	27.8%
1/1/06	104,954,131	114,543,257	9,589,126	91.6%	45,474,796	21.1%
1/1/07	118,608,487	124,198,042	5,589,555	95.5%	48,978,779	11.4%
1/1/08	133,074,285	135,787,677	2,713,392	98.0%	53,566,168	5.1%
<u>1/1/09</u>	<u>126,590,597</u>	<u>148,389,777</u>	<u>21,799,180</u>	85.3%	<u>54,182,910</u>	40.2%

The accompanying notes are an integral
part of this schedule.



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Certified Public Accountants
Business Consultants

Philadelphia, PA | Marlton, NJ

Ten Penn Center
1801 Market Street, Suite 1700
Philadelphia, PA 19103
215 564-1900 phone
215 564-3940 fax
www.asherco.com

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

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

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2008, which collectively comprise the County's basis financial statements and have issued our report thereon dated August 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Lackawanna County Area Agency on Aging ("LCAAA", a Special Revenue Fund), Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA", a blended component unit), Pension Trust Fund and the following entities collectively referred to as "Component Units": the Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Lackawanna County Redevelopment Authority, Lackawanna County River Basin Sewer Authority, County of Lackawanna Transit System, Multi-Purpose Stadium Authority of Lackawanna County, and the Lackawanna County Performing Arts Center Authority, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by these auditors. The financial statements of the Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Redevelopment Authority, and the Lackawanna County Performing Arts Center Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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



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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying Schedule of Findings and Responses that we consider to be a material weakness, as defined above and other deficiencies that we consider to be significant deficiencies. We consider Finding No. 08-3 to be a material weakness in internal control over financial reporting. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting, Finding Nos. 08-1, 08-2, and 08-4. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Responses as Finding No. 08-1. We noted certain matters that we reported to management of the County in a separate letter.

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

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

Asher & Company, Ltd.

ASHER & COMPANY, Ltd.

August 24, 2010

**COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2008**

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding No. 08-1: Grant financial reporting

Condition:

The County's system of tracking its grants and matching grant revenues with grant expenditures lacks the sophistication needed, given the number and complexities of the County's grant activities.

Criteria:

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

Effect:

Grants receivable and deferred revenue amounts are not readily available to assist in making management decisions. In addition, a granting agency communicated that the activities of their grants were not included on a prior year Schedule of Expenditures and Federal Awards.

Cause:

The County's system of tracking its grants and matching grant revenues with grant expenditures lacks the sophistication needed, given the number and complexities of the County's grant activities.

Recommendation:

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

Management's response:

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2008**

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 08-2: Preparation of financial statements

Condition:

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

Criteria:

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

Effect:

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

Cause:

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

Recommendation:

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

Management's response:

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2008**

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 08-3: Reconciliation of balance sheet accounts (fund balances) and accounts included in the statement of net assets.

Condition:

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

Criteria:

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

Effect:

Timely and accurate financial statements are not available to assist in the decision making and budgeting process and several adjusting journal entries were recorded after the financial close process to adjust for discrepancies identified in the reconciliations.

Cause:

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2008**

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 08-3: Reconciliation of balance sheet accounts (fund balances) and accounts included in the statement of net assets. - (Continued)

Recommendation:

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

Management's response:

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

**COUNTY OF LACKAWANNA, PENNSYLVANIA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2008**

FINDINGS - FINANCIAL STATEMENT AUDIT - (Continued)

Finding No. 08-4: Payroll system

Condition:

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

Criteria:

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

Effect:

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

Cause:

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

Recommendation:

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

Management's response:

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