

**County of Lackawanna,
Pennsylvania**

Financial Statements and
Supplementary Information

December 31, 2012

County of Lackawanna, Pennsylvania

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Independent Auditors' Report

Commissioners of Lackawanna County
Scranton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Department of Human Services Office of Children and Family Services (a department of the General Fund), which represents 5% and 16%, respectively of the assets and revenues of the General Fund and 0.8% and 9%, respectively of the assets and revenues of the Governmental Activities. We did not audit the Lackawanna County Area Agency on Aging and Child Care Information Services of Lackawanna County (departments of the Health and Human Services Fund) and the Lackawanna County Commission on Drug and Alcohol Abuse (a blended component unit of the Health and Human Services Fund), which collectively represent 61%, 41%, and 91%, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 1%, 0%, and 13%, respectively of the assets, net position, and revenues of the Governmental Activities. We did not audit the financial statements of the Pension Trust Fund which represents 96%, 100% and 100% of the assets, net position, and revenues, respectively, of the Fiduciary Fund. Finally, we did not audit the Scranton Lackawanna Health and Welfare Authority, the Lackawanna County Library System, the Lackawanna County Redevelopment Authority, the Lackawanna County River Basin Sewer Authority, the Lackawanna County Transit System Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority which represent 100% of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lackawanna County Department of Human Services Office of Children and Family Services, Lackawanna County Area Agency on Aging, Child Care Information Services of Lackawanna County, Lackawanna County Commission on Drug and Alcohol Abuse, Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Lackawanna County Redevelopment Authority, Lackawanna County River Basin Sewer Authority, Lackawanna County Transit System Authority, Multi-purpose Stadium Authority of Lackawanna County and Lackawanna County Performing Arts Center Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report 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 activity, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 15, the budgetary comparison information on page 59 and the schedule of funding progress for the Pension Trust Fund on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated September 27, 2013 on our consideration of the County's internal control over financial reporting and 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.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
September 27, 2013

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2012

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, 2012 compared to the year ended December 31, 2011. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

Financial Highlights

Overall, the County's liabilities exceed the assets by \$121,141,492 at December 31, 2012.

General Fund revenues exceeded expenses in 2012. This decreased the General Fund deficit from \$635,241 at December 31, 2011 to a fund balance of \$1,461,152 at December 31, 2012.

The County Commissioners continued to attack the County deficit through responsible management of expenses as well as increasing realizable revenues, all while continuing to provide essential services to the residents of the County. The financial predicament that the County found itself in over the last few years is beginning to dissipate due to the efforts of the Commissioners making the tough decisions that had to be made. Beginning in 2008 and continuing through 2012, the Commissioners undertook a Governmental reorganization in order to more efficiently manage all of the diverse departments within Lackawanna County government. This reorganization resulted in a significant decrease of County personnel, more efficient and streamlined government. The Commissioners are committed to looking at the way Lackawanna County does business and to make the necessary changes needed to become as efficient as possible.

The County has undertaken a comprehensive debt restructuring from 2008 through 2012; this effort is to pursue more conservative borrowing measures and to reduce risk by limiting the County's SWAPs and variable interest rate exposure. The Commissioners are committed to paying off current debt as soon as possible and this came to fruition when we had a chance to refinance the 2002 A&B Bonds in 2012. The term of the new bonds was not extended and the result of the refinancing was to lower the fixed interest rate over the existing term of the original bonds.

In addition to the Commissioners' previous austerity measures, real estate taxes were increased by 38% or 15.002 mills in the 2012 County budget. The real estate tax increase in 2012 was followed up with an additional real estate tax increase of 4.4% or 2.42 mills for the 2013 County budget.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net position (deficit) and the statement of activities. The statement of net position (deficit) reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net position (deficit) changed during the most recent fiscal year. All changes in the net position (deficit) 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 16-17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The County uses three types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General and Debt Service Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 59.

The basic fund financial statements can be found on pages 18-24 of this report.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

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 25-26 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 29-58 of this report.

Governmental Activities Condensed Statement of Net Position (Deficit) December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current and other assets	\$ 60,628,750	\$ 56,750,587
Capital assets, net	<u>111,294,470</u>	<u>113,730,303</u>
Total assets	<u>\$ 171,923,220</u>	<u>\$ 170,480,890</u>
Liabilities, Deferred Inflows of Resources		
Current liabilities	\$ 36,813,292	\$ 32,767,988
Long term and other liabilities	<u>256,251,420</u>	<u>261,421,691</u>
Total liabilities	<u>\$ 293,064,712</u>	<u>\$ 294,189,679</u>
Net Position (Deficit)		
Net investment in capital assets	\$ (77,404,676)	\$ (72,677,412)
Restricted	1,104,057	3,368,055
Unrestricted	<u>(44,840,873)</u>	<u>(54,399,432)</u>
Total net deficit	<u>\$ (121,141,492)</u>	<u>\$ (123,708,789)</u>

Total Assets of the Lackawanna County primary government increased by \$1,442,330 from 2011 to 2012 from \$170,480,890 to \$171,923,220. This amounts to a 0.8% increase.

The County's Total Liabilities decreased by \$1,124,967 in 2012, which represents a 0.3% decrease.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2012

Condensed Statement of Governmental Activities Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 27,359,258	\$ 24,924,519
Operating Grants and contributions	42,539,687	41,826,346
Capital grants and contributions	15,209,659	4,312,105
General Revenues:		
Tax levy for general purposes, net	73,627,311	54,514,506
Contributions and other	2,701,508	917,218
Total revenues	<u>161,437,423</u>	<u>126,494,694</u>
Expenses:		
General government – administrative	20,233,855	21,567,852
General government – judicial	21,417,046	22,902,117
Corrections	32,079,294	32,340,222
Public works and enterprises	3,958,158	2,549,890
Human services	38,082,715	41,955,418
Culture and recreation	21,559,170	4,714,443
Conservation and development	2,881,883	2,945,604
Depreciation	5,098,254	5,049,819
Interest-long term debt	13,559,751	11,605,484
Total expenses	<u>158,870,126</u>	<u>145,630,849</u>
Changes in net position	2,567,297	(19,136,155)
Net deficit, beginning	<u>(123,708,789)</u>	<u>(104,572,634)</u>
Net deficit, ending	<u>\$ (121,141,492)</u>	<u>\$ (123,708,789)</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2011.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 53,191,157	\$ 39,513,939	\$ 13,677,218	34.61	%
Intergovernmental	17,191,824	16,931,089	260,735	1.54	
Charges for service	18,466,496	16,889,539	1,576,957	9.34	
Other	397,714	356,705	41,009	11.50	
Note proceeds	-	21,000,000	(21,000,000)	(100.00)	
Proceeds from MPSA	14,600,000	-	14,600,000	N/A	
Transfers in	<u>2,500,701</u>	<u>2,271,298</u>	<u>229,403</u>	<u>10.10</u>	
 Total revenue	<u>\$ 106,347,892</u>	<u>\$ 96,962,570</u>	<u>\$ 9,385,322</u>	<u>9.68</u>	<u>%</u>

Total revenue in the General Fund increased by \$9,385,322 or approximately 10% from 2011 to 2012.

Tax revenue increased in 2012 due to the 38% tax increase that was instituted during the 2012 budget period.

The note proceeds decreased in 2012 because the County did not borrow any additional funds. The General Obligation Notes, Series of 2011 in the amount of \$21,000,000 were used to fund the County's unfunded debt.

During 2012, the Multi-Purpose Stadium Authority ("MPSA") repaid an outstanding loan to the County in the amount of \$14,600,000, which the County had previously loaned to MPSA for purposes of subsidizing operations of MPSA.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2012

The following represents a summary of General Fund expenditures, by function, along with changes from 2011.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government – administrative	\$ 16,090,625	\$ 15,238,773	\$ 851,852	5.59	%
General government – judicial	18,144,717	18,587,381	(442,664)	(2.38)	
Public safety – corrections	27,546,700	27,568,987	(22,287)	(0.08)	
Public works	71,080	134,480	(63,400)	(47.14)	
Health and human services	16,835,236	17,282,622	(447,386)	(2.59)	
Culture and recreation	2,673,705	2,678,142	(4,437)	(0.17)	
Community and economic development	384,432	575,103	(190,671)	(33.15)	
Miscellaneous	878,407	735,004	143,403	19.51	
Debt service	165,812	187,864	(22,052)	(11.74)	
Other	16,425,603	239,500	16,186,103	6,758.29	
Transfers	<u>5,035,182</u>	<u>2,879,303</u>	<u>2,155,879</u>	<u>74.88</u>	
 Total expenses	<u>\$ 104,251,499</u>	<u>\$ 86,107,159</u>	<u>\$ 18,144,340</u>	<u>21.07</u>	<u>%</u>

Total expenses in the General Fund increased by \$18,144,340 or approximately 21% from 2011 to 2012.

Expenses within the general government – administrative, judicial, public safety, public works, health and human services, culture and recreation, community and economic development decreased due to reduction in force and other cost saving measures.

The Other expenses of \$16.4 million dollars represent the \$7.3 million dollar loan provided by the County to MPSA to provide temporary funding for the construction costs of the new facility (which opened April 2013). The remaining balance of \$9.1 million dollars is broken down between the \$7.3 million dollar capital grant to the MPSA towards facility construction and an operational grant to the stadium authority of \$1.8 million dollars.

The Transfers out of \$5 million dollars represents \$1.25 million dollars spent by the County Commissioners for infrastructure improvements throughout the County. The remainder relates to the variable operating subsidy provided by the County to various County departments.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2012:

	<u>2012 Budget</u>	<u>2012 Actual</u>	<u>Favorable (Unfavorable)</u>	<u>% Change</u>	
Taxes	\$ 54,639,173	\$ 53,191,157	\$ (1,448,016)	-2.65	%
Intergovernmental	18,320,452	17,191,824	(1,128,628)	-6.16	
Charges for service	18,397,546	18,466,496	68,950	0.37	
Other	426,100	397,714	(28,386)	-6.66	
Proceeds from MPSA	-	14,600,000	14,600,000	N/A	
Transfers in	-	2,500,701	2,500,701	N/A	
Total revenue	<u>\$ 91,783,271</u>	<u>\$ 106,347,892</u>	<u>\$ 14,564,621</u>	<u>15.87</u>	<u>%</u>

Overall, the County's General Fund revenue exceeded its budget due to unanticipated proceeds received from the Multi-Purpose Stadium Authority of Lackawanna County. The unfavorable result of certain of the individual revenue lines is due to many factors. One of these factors is our tax revenue, which was split midyear between charges for services and taxes because of the way we chose to classify delinquent tax revenue and fees associated with those delinquent taxes collected. The county previously classified all revenue associated with those delinquent properties to prior year delinquent tax revenue, beginning in 2012 we classify it between the treasurer's office and tax claim's office revenue, and late fees are now reported as charges for services.

The grant revenue also decreased because of the Commonwealth of Pennsylvania's and Federal Government's cuts to some of the grant funded programs run by the County, notably some Pennsylvania Commission on Crime and Delinquency grants have expired and have not been renewed by PCCD.

The charges for services were impacted both positively and negatively during the year. Some of the positives were due to the way the County classifies delinquent tax revenue. Some of the negatives were decreases in the revenue from some of the row offices and courts departments and elimination of housing of the federally funded prisoners at the Lackawanna County prison.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2012:

	<u>2012 Budget</u>	<u>2012 Actual</u>	<u>Favorable (Unfavorable)</u>	<u>% Change</u>	
General government – administrative	\$ 20,084,213	\$ 16,090,625	\$ 3,993,588	24.82	%
General government – judicial	18,942,501	18,144,717	797,784	4.40	
Public safety – corrections	29,228,727	27,546,700	1,682,027	6.11	
Public works	142,028	71,080	70,948	99.81	
Health and human services	17,759,777	16,835,236	924,541	5.49	
Culture and recreation	2,886,256	2,673,705	212,551	7.95	
Community and economic development	398,382	384,432	13,950	3.63	
Miscellaneous	795,013	878,407	(83,394)	(9.49)	
Debt service	225,000	165,812	59,188	35.70	
Other	-	16,425,603	(16,425,603)	(100.00)	
Transfers	1,250,000	5,035,182	(3,785,182)	(75.17)	
 Total expenses	<u>\$ 91,711,897</u>	<u>\$ 104,251,499</u>	<u>\$ (12,539,602)</u>	<u>(12.03)</u>	<u>%</u>

The total expenses for 2012 are looked upon very favorably. The County Commissioners were adamant about holding the line and held all department heads responsible for their departmental budget, and it shows. Total revenue was a little short but the fact that expenses were cut this much is a great start to the road to financial recovery.

The General Government - Administrative expenses were way down due to the fact that, in the Commissioners continuing efforts to make County government smaller and more efficient, many budgeted positions went unfilled throughout the year. The actual expense compared to budget doesn't reflect some subsidies that were recorded as transfers out, but were budgeted as General Government – Administrative expenses.

The Judicial department was also helpful in aiding the Commissioners cut expenses. The department utilized existing grant funds better to offset expenses.

The Public Safety expenses also came in under budget mainly because of the newly negotiated prison food contract that was considerably less than the budgeted amount.

The Public Works department also benefited from a position being eliminated as well as consolidating office space to save on rent.

The Health and Human Services department expenses are tied mostly to grant funding, when this funding is cut at the state and federal level, the department in turn cuts expenses to make up for the cuts in revenue.

With all this being said, the reductions in expenses are predominately made up by reductions in salary and benefits as well as better overall departmental management for 2012.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

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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 Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund revenues and expenses decreased by \$1,135,908 and \$2,331,650 respectively.

The Health and Human Service Fund has a fund balance of \$611,264. This is an increase of \$599,551 from the 2011 final ending fund balance of \$11,713.

Debt Service Fund (Major Fund)

The Debt Service fund accounts for resources accumulated for the payment of long term obligations, primarily bonds. A portion of the County real estate tax levy is used to fund the expenditures within this fund as well as transfers from other funds for which the specific debt was issued.

During 2012, the County refinanced its 2002 Series A & B General Obligation Bonds to benefit from lower interest rates currently being offered. The County did not extend the debt which seems to be a common practice to artificially lower annual debt service. See Note 6 for additional information regarding the County's outstanding debt.

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance decreased from \$5,905,298 at December 31, 2011 to \$4,467,687 at December 31, 2012. The County continued its capital projects within the County, including ongoing infrastructure improvements, parks and recreation and courthouse improvements. These projects were funded with existing capital project resources causing the Capital Projects fund balance to decrease from 2011 to 2012.

Internal Service Fund (Proprietary Fund)

The Internal Service Fund accounts for the County's self-insured workers compensation program. This program is monitored by the Commonwealth of Pennsylvania Bureau of Labor and Industry. The Bureau of Labor and Industry requires that the County maintains an irrevocable trust account for the payment of future benefits. The County's actuarially determined reserve/estimate for unpaid losses amounted to \$1,522,677 at December 31, 2012. The fund's total assets at December 31, 2012 were \$1,353,397, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of \$169,280 as of December 31, 2012. This is a decrease of \$146,560 in the fund deficit of \$315,840 reported at December 31, 2011.

Pension Trust Fund

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$8,609,690 during 2012 resulting in Plan net position of \$139,398,287 at December 31, 2012. Plan net assets were at \$130,788,597 at December 31, 2011

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2012

Plan contributions by members amounted to \$3,749,580 and \$3,859,609 in 2012 and 2011, respectively. Benefits paid to retired members were \$6,532,670 and \$5,708,411 in 2012 and 2011, respectively.

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,077,479 in that role as of December 31, 2012.

Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2012 was as follows:

	January 1, 2012	Acquisitions	Disposals	Transfer	December 31, 2012
Non-depreciable capital assets:					
Land	\$ 3,533,235	\$ -	-	\$ -	\$ 3,533,235
Construction-in-progress	1,188,601	1,310,351	-	(132,720)	2,366,232
Total non-depreciable capital assets	4,721,836	1,310,351	-	(132,720)	5,899,467
Depreciable capital assets:					
Buildings and improvements	114,098,833	372,603	-	12,179	114,483,615
Machinery and equipment	37,183,426	597,339	-	-	37,780,765
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	36,414,744	382,128	-	120,541	36,917,413
Investment in Airport	8,727,567	-	-	-	8,727,567
Total depreciable capital assets	197,847,895	1,352,070	-	132,720	199,332,685
Less accumulated depreciation:					
Buildings and improvements	(25,445,122)	(2,811,861)	-	-	(28,256,983)
Machinery and equipment	(31,242,495)	(1,635,300)	-	-	(32,877,795)
Equipment under capital lease	(592,536)	(94,884)	-	-	(687,420)
Infrastructure	(28,512,426)	(394,983)	-	-	(28,907,409)
Investment in Airport	(3,046,849)	(161,226)	-	-	(3,208,075)
Total accumulated depreciation	(88,839,428)	(5,098,254)	-	-	(93,937,682)
Net depreciable capital assets	109,008,467	(3,746,184)	-	132,720	105,395,003
Total	\$ 113,730,303	\$ (2,435,833)	\$ -	\$ -	\$ 111,294,470

At December 31, 2012, the County has committed an additional \$1,951,234 to various ongoing construction projects. Total capital assets decreased from \$113,730,303 at December 31, 2011 to \$111,294,470 at December 31, 2012.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

Long Term Debt

As of December 31, 2012, the County's net general obligation debt was \$233,435,714 net of related discount. This amount represents approximately 87% of the legal limit as calculated in 2012.

As more fully described in Note 8, during 2011, the County's credit rating was withdrawn by the various rating agencies, which created a potential termination event on the County's SWAP agreement. During 2012, the County and the SWAP counterparties agreed to a forbearance agreement that indicated the County's loss of a credit rating would not constitute an early termination event.

Economic Condition and Outlook

The County administration continues to closely monitor its debt portfolio. During 2012 and moving forward the County will continue to pursue possibilities to further limit variable interest rate exposure and its exposure to derivative instruments, and take advantage of this favorable interest rate environment.

The Commissioners have tasked the administration with continuous review of all County operations. The Commissioners also continue to streamline current County government where possible including reducing its work force without cutting or sacrificing services to the taxpayers, utilizing innovative energy savings programs, technological innovations, restructuring purchasing policies, as well as, continuing the new vehicle and travel policies.

In April 2012, the County completed negotiations regarding the sale of the baseball franchise owned by the Multi Purpose Stadium Authority of Lackawanna County as part of a larger project to renovate the Authority's Stadium and provide a long term tenant for the facility.

In addition, the County's 2012 budget included a 15.002 mill real estate tax increase. This increase was expected to generate approximately \$19,300,000 in additional tax revenue for County operations. This tax increase will help stabilize the County's finances and allow the County to continue to provide the essential services expected by its citizens.

The Commissioners have shown a willingness to invest in the future of the County. They have committed substantial funds for the upgrade and replacement of the aging County infrastructure. In addition, the Commissioners are planning on aiding in the potential growth of the bio-science and medical industry and the expansion of the County Parks and Recreation system. The Commissioners are steadfast in their approach on developing a low interest loan and grant program. The grant program is considered one of a kind; it will help defray some if not all costs associated with obtaining a United States Small Business Association (SBA) Loan. The Lackawanna County SBA fee waiver program is designed to promote economic development, spur local growth, and encourage the private sector to create family-sustaining jobs here in Lackawanna County. The Commissioners are also committing future funds to help create local neighborhood revitalization grants; these grants will most likely make these neighborhoods more attractive for new residents to buy homes and live in with the hopes of expanding the current County tax base as well as support the sustainability of these neighborhoods. These investments will most likely pay huge dividends in the future success and sustainability of the County.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

The Commissioners are also very serious about investing in the future of the County and have committed substantial funds for the upgrade and replacement of aging County infrastructure, aiding in the potential growth of the bio-science and medical industry and the expansion of the County Parks and Recreation system. These investments will most likely pay huge dividends in the future success and sustainability of the County.

These are just a few of the things that the Commissioners and the County administration are attempting to do to help spur job creation and to mitigate the financial burden placed on the taxpayers 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 Position

December 31, 2012

Assets	Governmental Activities	Component Units
Current Assets		
Cash and cash equivalents	\$ 10,558,332	\$ 27,047,199
Restricted cash	-	8,320,097
Investments	1,288,582	185,888
Restricted investments	-	1,872,584
Accounts receivable, net	1,223,213	52,598,846
Inventory	29,643	-
Due from agency fund	2,518,588	-
Due from other governments, net	8,600,452	3,767,575
Due from component units	13,518,821	-
Taxes receivable, net	8,167,178	367,290
Other assets	324,573	774,770
Total current assets	46,229,382	94,934,249
Capital Assets, Net	111,294,470	110,910,649
Assets Held for Capital Projects	4,499,650	-
Other Noncurrent Assets	-	1,583,878
Bond issue costs	9,899,718	-
Total assets	\$ 171,923,220	\$ 207,428,776
Liabilities and Net Position (Deficit)		
Current Liabilities		
Accounts payable	\$ 10,875,495	\$ 5,126,545
Accrued expenses	12,109,202	948,700
Current portion:		
Net pension obligation	4,089,804	-
Bond and notes payable	7,102,971	3,068,854
Capital lease obligations	172,651	-
Compensated absences	237,399	320,331
Due to component units	129,703	-
Due to primary government	-	9,483,766
Deferred revenues	573,390	9,382,351
Escrow liability	-	4,221,917
Claims payable	1,522,677	-
Other liabilities	-	100,950
Total current liabilities	36,813,292	32,653,414
Noncurrent Liabilities		
Bonds and notes payable, net	226,332,744	48,155,587
Capital lease obligation	290,374	-
Nonrecourse debt issues	-	48,828,132
Net pension obligation	17,374,270	-
Investment derivative - pay variable / receive variable basis swap	9,590,238	-
Compensated absences	2,663,794	1,012,201
Total liabilities	293,064,712	130,649,334
Deferred Inflows of Resources		
Deferred service concession arrangement receipts	-	2,258,006
Total deferred inflows of resources	-	2,258,006
Net Position (Deficit)		
Net investment in capital assets	(77,404,676)	60,471,419
Restricted	1,104,057	1,262,862
Unrestricted	(44,840,873)	12,787,155
Total net position (deficit)	(121,141,492)	74,521,436
Total liabilities, deferred inflows of resources and net position	\$ 171,923,220	\$ 207,428,776

See notes to financial statements

County Of Lackawanna, Pennsylvania

Statement of Activities

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Component Units
Primary Government						
Governmental activities:						
General government - administrative	\$ (20,233,855)	\$ 6,737,976	\$ 124,810	\$ 28,190	\$ (13,342,879)	
General government - judicial	(21,417,046)	7,127,730	1,184,786	-	(13,104,530)	
Public safety - corrections	(32,079,294)	9,408,055	181,408	-	(22,489,831)	
Public works and enterprises	(3,958,158)	20,460	2,797,416	-	(1,140,282)	
Health and human services	(38,082,715)	783,372	36,628,700	226,203	(444,440)	
Culture and recreation	(21,559,170)	2,840,124	-	14,600,000	(4,119,046)	
Community and economic development	(2,881,883)	441,541	1,622,567	355,266	(462,509)	
Unallocated depreciation	(5,098,254)	-	-	-	(5,098,254)	
Interest on long-term debt	(13,559,751)	-	-	-	(13,559,751)	
Total governmental activities	<u>\$ (158,870,126)</u>	<u>\$ 27,359,258</u>	<u>\$ 42,539,687</u>	<u>\$ 15,209,659</u>	<u>(73,761,522)</u>	
Component Units						
Scranton Lackawanna Health and Welfare Authority	\$ (60,033,374)	\$ 46,233	\$ -	\$ -	\$ (59,987,141)	
Lackawanna County Library System	(4,916,721)	250,000	964,115	-	(3,702,606)	
Lackawanna County Redevelopment Authority	(65,642)	-	-	-	(65,642)	
Lackawanna County River Basin Sewer Authority	(7,679,408)	8,341,759	-	30,128	692,479	
County of Lackawanna Transit System Authority	(12,699,329)	4,726,244	6,939,967	349,101	(684,017)	
Multi-Purpose Stadium Authority of Lackawanna County	(1,106,682)	-	-	8,506,867	7,400,185	
Lackawanna County Performing Arts Center Authority	(760,782)	668,565	-	-	(92,217)	
Total component units	<u>\$ (87,261,938)</u>	<u>\$ 14,032,801</u>	<u>\$ 7,904,082</u>	<u>\$ 8,886,096</u>	<u>(56,438,959)</u>	
General revenues						
Taxes levied for general purposes, net					73,627,311	4,352,327
Rental income					-	59,903,418
Interest revenue					79,034	276,934
Contributions and other revenue					206,457	14,752,322
Miscellaneous revenue					974,289	-
Change in fair value of investment derivative					1,441,728	-
Total general revenues					<u>76,328,819</u>	<u>79,285,001</u>
Change in net (deficit) position					2,567,297	22,846,042
Net (deficit) position, beginning					<u>(123,708,789)</u>	<u>51,675,394</u>
Net (deficit) position, ending					<u>\$ (121,141,492)</u>	<u>\$ 74,521,436</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2012

	General Fund	Health And Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Assets						
Cash and cash equivalents	\$ 3,299,400	\$ 2,144,978	\$ 3,127,482	\$ 4,499,493	\$ 1,986,472	\$ 15,057,825
Investments	-	-	-	157	-	157
Inventory	29,643	-	-	-	-	29,643
Due from other funds	6,405,089	722,548	3,210,425	757,881	162,478	11,258,421
Due from component units	25,111	-	-	1,100,000	-	1,125,111
Other receivables	177,231	-	137,896	-	908,086	1,223,213
Due from other governments, net	3,780,610	267,333	1,070,662	3,150,000	331,847	8,600,452
Prepaid expenses	259,758	-	-	-	-	259,758
Taxes receivable, net	8,167,178	-	-	-	-	8,167,178
Total	\$ 22,144,020	\$ 3,134,859	\$ 7,546,465	\$ 9,507,531	\$ 3,388,883	\$ 45,721,758
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 5,697,514	\$ 2,002,425	\$ 3,229	\$ 1,331,585	\$ 1,840,742	\$ 10,875,495
Accrued liabilities	1,731,488	130,420	-	-	147,720	2,009,628
Accrued pension	4,089,804	-	-	-	-	4,089,804
Due to other funds	1,486,281	6,297	2,820,305	3,519,322	907,628	8,739,833
Due to component units	129,703	-	-	-	-	129,703
Deferred revenue	7,548,078	384,453	-	188,937	-	8,121,468
Total liabilities	20,682,868	2,523,595	2,823,534	5,039,844	2,896,090	33,965,931
Fund Balances (Deficit)						
Non-spendable	289,401	-	-	-	-	289,401
Restricted	-	1,038,348	4,722,931	4,467,687	813,557	11,042,523
Unassigned	1,171,751	(427,084)	-	-	(320,764)	423,903
Total fund balances	1,461,152	611,264	4,722,931	4,467,687	492,793	11,755,827
Total	\$ 22,144,020	\$ 3,134,859	\$ 7,546,465	\$ 9,507,531	\$ 3,388,883	\$ 45,721,758

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position December 31, 2012

Total Fund Balances - Governmental Funds		\$ 11,755,827
Amounts reported for governmental activities in the statement of net position are different because:		
Net deficit of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.		(169,280)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		111,294,470
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported as deferred revenue in the funds.		7,548,078
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net position.		9,899,718
Long-term receivables from bonds and notes payable issued by the County and loaned to component units are not due and received in the current period and therefore are not reported as receivables in the funds.		12,393,710
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and notes payable, net	\$ 233,435,715	
Net pension obligation	17,374,270	
Capital lease obligation	463,025	
Compensated absences	<u>2,901,193</u>	
		(254,174,203)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(9,590,238)
Accrued litigation claims (included in accrued expenses).		(7,390,000)
Accrued interest payable is included in the statement of net position (included in accrued expenses).		<u>(2,709,574)</u>
Total Deficit - Governmental Activities		<u><u>\$ (121,141,492)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds

Year Ended December 31, 2012

	Major Funds					Total Governmental Funds
	General Fund	Health And Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Revenues						
Taxes	\$ 52,984,700	\$ -	\$ 18,621,606	\$ -	\$ 1,285,903	\$ 72,892,209
Payments in lieu of taxes	206,457	-	-	-	-	206,457
Intergovernmental	17,191,824	21,062,757	-	219,097	6,124,869	44,598,547
Charges for service	18,466,496	92,081	-	-	5,902,722	24,461,299
Court costs, fines and forfeitures	15,373	-	-	-	59,950	75,323
Interest and rent	25,932	45,531	4,316	9,512	1,945	87,236
Contributions and other	356,409	-	-	226,526	233,085	816,020
Total revenues	89,247,191	21,200,369	18,625,922	455,135	13,608,474	143,137,091
Expenditures						
Current:						
General government- administrative	16,090,625	-	36,250	7,980	244,060	16,378,915
General government - judicial	18,144,717	-	-	-	3,081,207	21,225,924
Public safety and corrections	27,546,700	-	-	-	4,755,982	32,302,682
Public works and enterprises	71,080	-	-	-	3,504,061	3,575,141
Health and human services	16,835,236	20,732,479	-	-	247,671	37,815,386
Culture and recreation	2,673,705	-	-	-	2,460,906	5,134,611
Community and economic development	384,432	-	-	-	1,770,303	2,154,735
Miscellaneous expenses	878,407	-	-	-	2,824	881,231
Debt service:						
Principal	-	-	5,883,161	-	-	5,883,161
Interest	165,812	-	12,256,392	-	-	12,422,204
Capital outlay	-	-	-	3,109,585	-	3,109,585
Total expenditures	82,790,714	20,732,479	18,175,803	3,117,565	16,067,014	140,883,575
Excess (Deficiency) of Revenues Over Expenditures	6,456,477	467,890	450,119	(2,662,430)	(2,458,540)	2,253,516
Other Financing Sources (Uses)						
Proceeds from Multi-Purpose Stadium Authority	14,600,000	-	-	29,565	-	14,629,565
Capital grant to Multi-Purpose Stadium Authority	(9,125,603)	-	-	-	-	(9,125,603)
Loan to Multi-Purpose Stadium Authority	(7,300,000)	-	-	-	-	(7,300,000)
Note proceeds	-	-	8,811,000	-	-	8,811,000
Note issue costs	-	-	(121,000)	-	-	(121,000)
Advanced refunding of bond	-	-	(8,690,000)	-	-	(8,690,000)
Transfers in	2,500,701	131,661	-	1,605,180	2,205,094	6,442,636
Transfers out	(5,035,182)	-	-	(409,926)	(1,917,196)	(7,362,304)
Total other financing sources (uses)	(4,360,084)	131,661	-	1,224,819	287,898	(2,715,706)
Net Change in Fund Balance	2,096,393	599,551	450,119	(1,437,611)	(2,170,642)	(462,190)
Fund Balances, Beginning	(635,241)	11,713	4,272,812	5,905,298	2,663,435	12,218,017
Fund Balances, Ending	\$ 1,461,152	\$ 611,264	\$ 4,722,931	\$ 4,467,687	\$ 492,793	\$ 11,755,827

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Governmental Funds to the Statement of Activities Year Ended December 31, 2012

Total Net Change In Fund Balances - Governmental Funds	\$ (462,190)
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.	146,560
Capital asset additions are reported as expenditures in the governmental funds.	2,662,421
Depreciation expense on capital assets is reported in the statement of activities.	(5,098,254)
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.	735,102
Proceeds from the issuance of bonds payable are considered current financial resources and reported in the funds but not the statement of activities.	(8,811,000)
Repayment and refunding of bonds payable and capital lease obligations uses current financial resources and is reported in the funds but not the statement of activities.	16,118,882
Bond issue costs are reported as expenditures in the funds.	121,000
Amortization of premiums and deferred refunding charges.	(357,607)
Amortization of bond issue costs.	(717,776)
Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period.	1,441,728
Change in the net pension obligation.	(2,602,086)
Change in accrued litigation claims.	100,000
Change in accrued interest on bonds payable.	(61,912)
Change in compensated absences.	<u>(647,571)</u>
Change in Net Position of Governmental Activities	<u>\$ 2,567,297</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Net Deficit - Proprietary Fund

December 31, 2012

	<u>Internal Service Fund</u>
Assets	
Current Assets	
Investments	\$ 1,288,582
Prepaid expenses	<u>64,815</u>
Total	<u>\$ 1,353,397</u>
Liabilities and Net Deficit	
Current Liabilities	
Claims payable	\$ 1,522,677
Net Deficit,	
Unrestricted	<u>(169,280)</u>
Total	<u>\$ 1,353,397</u>

See notes to financial statements

County of Lackawanna, Pennsylvania**Statement of Revenues, Expenses, and Change in Net Deficit - Proprietary Fund**
Year Ended December 31, 2012

	<u>Internal Service Fund</u>
Operating Revenues, Charges for services	<u>\$ 70,262</u>
Operating Expenses	
Workers' compensation claims	709,582
Administrative	<u>169,476</u>
Total operating expenses	<u>879,058</u>
Operating Loss	<u>(808,796)</u>
Nonoperating Revenues	
Interest income	35,688
Transfer in	924,900
Transfer out	<u>(5,232)</u>
Total nonoperating revenues	<u>955,356</u>
Net Income	146,560
Net Deficit, Beginning	<u>(315,840)</u>
Net Deficit, Ending	<u><u>\$ (169,280)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania**Statement of Cash Flows - Proprietary Fund**

December 31, 2012

	<u>Internal Service Fund</u>
Cash Flows from Operating Activities	
Cash received from users	\$ 70,262
Cash payments for goods and services	(174,512)
Cash payments for insurance claims	<u>(827,127)</u>
Net cash used in operating activities	<u>(931,377)</u>
Cash Flows from NonCapital Financing	
Transfers in, net	<u>919,668</u>
Cash Flows from Investing Activities	
Interest income	35,688
Purchase of investments	<u>(29,209)</u>
Net cash provided by investing activities	<u>6,479</u>
Net Decrease in Cash	(5,230)
Cash, Beginning	<u>5,230</u>
Cash, Ending	<u><u>\$ -</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (808,796)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Prepaid expenses	(5,036)
Claims payable	<u>(117,545)</u>
Net cash used in operating activities	<u><u>\$ (931,377)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Fiduciary Net Position December 31, 2012

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 1,053,540	\$ 5,077,479	\$ 6,131,019
Plan member contributions receivable	136,684	-	136,684
Accrued interest	489,500	-	489,500
Investments, at fair value:			
Federated money market funds	1,749,366	-	1,749,366
Certificates of deposit	10,927,202	-	10,927,202
U.S. government securities	17,566,284	-	17,566,284
Tax exempt bonds	555,192	-	555,192
Corporate bonds	19,982,328	-	19,982,328
Common stocks	74,861,946	-	74,861,946
Mutual funds	12,076,245	-	12,076,245
Total investments	137,718,563	-	137,718,563
Total	\$ 139,398,287	\$ 5,077,479	\$ 144,475,766
Liabilities and Net Position			
Liabilities			
Escrow liabilities	\$ -	\$ 2,558,891	\$ 2,558,891
Due to other funds	-	2,518,588	2,518,588
	-	5,077,479	5,077,479
Net Position			
Held in trust for pension benefits	139,398,287	-	139,398,287
Total	\$ 139,398,287	\$ 5,077,479	\$ 144,475,766

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Change in Fiduciary Net Position Year Ended December 31, 2012

	Pension Trust Fund
Additions	
Contributions:	
Plan members	\$ 3,749,580
Employer	500,000
	<hr/>
Total contributions	4,249,580
	<hr/>
Investment Income	
Net appreciation in fair value of investments	9,887,908
Interest	1,291,703
Dividends	1,806,273
Investment expense	(40,784)
	<hr/>
Net investment earnings	12,945,100
	<hr/>
Total additions	17,194,680
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Deductions	
Benefits paid	6,532,670
Participant contributions refunded	1,120,188
Death benefits paid	525,141
Administrative expenses	406,991
	<hr/>
Total deductions	8,584,990
	<hr/>
Increase in Net Position	8,609,690
	<hr/>
Net Position, Beginning	130,788,597
	<hr/>
Net Position, Ending	<u>\$ 139,398,287</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Balance Sheet - Discretely Presented Component Units
December 31, 2012

	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	\$ -	\$ 404,500	\$ 53,908	\$ 12,412,368	\$ 1,700,130	\$ 12,068,933	\$ 338,203	\$ 27,047,199
Restricted cash	-	-	-	190,362	8,129,548	-	187	8,320,097
Investments	59,930	-	-	-	125,949	-	-	185,888
Restricted investments	1,336,971	-	-	535,613	-	-	-	1,872,584
Due from other governments	2,826,106	-	-	-	941,469	-	-	3,767,575
Other receivables	48,828,132	97,997	-	939,590	246,087	55,470	2,431,564	52,598,846
Taxes receivable, net	-	367,290	-	-	-	-	-	367,290
Other current assets	-	416,090	-	59,127	297,034	1,713	-	774,770
Total current assets	53,051,148	1,286,752	53,908	14,137,058	11,509,217	12,126,122	2,769,954	94,934,249
Capital Assets Not Being Depreciated	-	50,000	-	-	226,517	-	-	276,517
Capital Assets, Net	-	909,813	-	52,707,799	6,270,279	43,852,892	6,893,340	110,634,132
Other Assets	9	-	-	568,386	145,003	870,480	-	1,583,878
Total	\$ 53,051,157	\$ 2,246,565	\$ 53,908	\$ 67,413,243	\$ 18,151,016	\$ 56,849,494	\$ 9,663,303	\$ 207,428,770
Liabilities								
Current liabilities:								
Accounts payable	\$ -	\$ 15,215	\$ -	\$ 277,499	\$ 690,744	\$ 4,129,667	\$ 13,420	\$ 5,126,545
Accrued expenses	1,099	-	-	-	368,576	464,322	114,703	948,700
Current portion of long-term debt	-	-	785,211	1,487,643	-	316,000	480,000	3,068,854
Current portion of compensated absences	-	-	-	177,624	142,707	-	-	320,331
Due to primary government	-	-	-	-	-	8,400,000	1,003,766	9,403,766
Deferred revenue	-	367,290	-	-	9,015,081	-	-	9,382,351
Escrow liability	4,221,917	-	-	-	-	-	-	4,221,917
Other liabilities	-	-	-	-	-	12,950	88,000	100,950
Total current liabilities	4,223,016	382,505	785,211	1,942,766	10,217,088	13,322,939	1,779,889	32,653,414
Long-term Debt	-	-	-	24,401,565	-	19,716,000	4,038,022	48,155,587
Compensated Absences	-	57,494	-	396,647	558,060	-	-	1,012,201
Nonrecourse Debt Issues	48,828,132	-	-	-	-	-	-	48,828,132
Total liabilities	53,051,148	439,999	785,211	26,740,978	10,775,148	33,038,939	5,817,911	130,649,334
Deferred Inflows of Resources	-	-	-	-	-	-	2,258,000	2,258,000
Deferred service concession arrangement receipts	-	-	-	-	-	-	2,258,000	2,258,000
Net Position								
Net investment in capital assets	-	959,813	-	26,818,591	6,496,796	23,820,892	2,375,327	60,471,419
Restricted	-	536,700	-	725,975	-	-	187	1,262,862
Unrestricted	9	310,053	(731,213)	13,127,699	879,072	(10,337)	(788,128)	12,787,155
Total net position	9	1,806,566	(731,213)	40,672,265	7,375,868	23,810,555	1,587,386	74,521,436
Total	\$ 53,051,157	\$ 2,246,565	\$ 53,908	\$ 67,413,243	\$ 18,151,016	\$ 56,849,494	\$ 9,663,303	\$ 207,428,770

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Position - Discretely Presented Component Units

Year Ended December 31, 2012

	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	\$ 46,233	\$ 250,000	\$ -	\$ 8,341,759	\$ 4,726,244	\$ -	\$ 668,565	\$ 14,032,801
Real estate taxes	-	4,047,520	-	-	-	-	-	4,047,520
Tax incremental financing	-	-	304,807	-	-	-	-	304,807
Rental income	59,903,418	-	-	-	-	-	-	59,903,418
Interest income	73,729	1	83	180,957	11,276	10,765	123	276,934
Operating grants and contributions	-	964,115	-	-	6,939,967	-	-	7,904,082
Capital grants and contributions	-	-	-	30,128	349,101	8,506,867	-	8,886,096
Other	9,989	49,393	6,320	993,199	58,184	13,626,986	8,251	14,752,322
Total revenues	60,033,369	5,311,029	311,210	9,546,043	12,084,772	22,144,618	676,939	110,107,980
Expenses								
Public works and enterprises	-	4,916,721	-	7,604,965	12,699,329	-	-	25,221,015
Culture and recreation	-	-	-	-	-	256,838	10,872	267,710
Operating expenses	-	-	-	-	-	-	36,740	55,040
Community and economic development	-	-	18,300	-	-	-	324,627	60,479,786
Debt service	60,033,374	-	47,342	74,443	-	-	388,543	1,238,387
Unallocated depreciation and amortization	-	-	-	-	-	849,844	-	-
Total expenses	60,033,374	4,916,721	65,642	7,679,408	12,699,329	1,106,682	760,782	87,261,938
Change In Net Position	(5)	394,308	245,568	1,866,635	(614,557)	21,037,936	(83,843)	22,846,042
Net Position (Deficit) Beginning	14	1,412,258	(976,781)	38,805,630	7,990,425	2,772,619	1,671,229	51,675,394
Net Position (Deficit), Ending	\$ 9	\$ 1,806,566	\$ (731,213)	\$ 40,672,265	\$ 7,375,868	\$ 23,810,555	\$ 1,587,386	\$ 74,521,436

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies

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

Nature of Operations

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

Financial Reporting Entity

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

Government-Wide Financial Statements

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

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

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

**Measurement Focus, Basis of Accounting,
and Financial Statement Presentation**

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

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

The Debt Service Fund accounts for resources accumulated for the purpose of funding long-term debt obligations. The County records all debt service tax revenue directly in its debt service fund.

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

The County reports the following nonmajor governmental funds:

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

The County reports the following proprietary fund:

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

The County reports the following fiduciary funds:

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

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

Budgetary Data

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

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

New Accounting Principle

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, for the year ended December 31, 2012. GASB No. 62 directly incorporates the applicable guidance from those FASB and AICPA pronouncements, issued prior to November 30, 1989, into the state and local government accounting and financial reporting standards. The County implemented the accounting and reporting requirement of GASB 62 as of January 1, 2012. This implementation did not materially change the County's accounting and reporting policies.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

The County adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for the year ended December 31, 2012. GASB No. 63 standardized the presentation of deferred outflows of resources and deferred inflows of resources and their effect on net position. The County implemented the presentation requirements of GASB No. 63 as of January 1, 2012, which added a deferred inflow of resources for the discretely presented component units, see Note 7, and did not have a material effect on the financial statements.

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.

Assets Held for Capital Projects

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

Capital Assets

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

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

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

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

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

Bond Issue Costs

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

Escrow Liabilities

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

Compensated Absences

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

Derivative Financial Instrument

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

Self-Insurance

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

Governmental Fund Balance Classifications/Policies and Procedures

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County classifies its governmental fund balances as follows:

- *Non-spendable* – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

- *Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action of the County's "highest level of decision-making authority" which do not lapse at year-end.
 - The Commissioners are its highest level of decision-making authority, and
 - The Commissioners commit funds through an ordinance.
- *Assigned* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County, but not through formal action of the Commissioners.
 - The Commissioners authorized the County's CFO to assign funds to specific purposes.
- *Unassigned* – includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Interfund Activity

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

Restricted Net Position/Fund Balances

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.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the County's policy is generally to apply the expenditure to committed resources, then to assigned resources, and then to unassigned resources.

Allocation of Indirect Expenses

The County does not allocate any indirect expenses including depreciation.

Use of Estimates

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

2. Reporting Entity

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

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

Blended Component Unit

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

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

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

- 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, 2012.
- 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 \$8,400,000. In addition, the County has guaranteed the debt of MPSA and secured the debt with a portion of future hotel tax collections.
- 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 and agreed to fund any deficits of the LCPACA. The long-term debt outstanding at December 31, 2012 was approximately \$4,500,000.

Related Organizations

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

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

Joint Ventures

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

- Wilkes-Barre/Scranton International Airport ("Airport"). A joint venture with the County of Luzerne, the County Commissioners of each county serve as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2012, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately \$2,840,000 in its capital assets at December 31, 2012.
- Lackawanna-Susquehanna Behavioral Health/Intellectual Disabilities Early Intervention. 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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

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

3. Deposits with Financial Institutions and Investments

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

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

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

Deposits with Financial Institutions

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a policy for custodial credit risk. At December 31, 2012, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$23,870,697 compared to the carrying amount of \$21,414,795. The difference is caused by items in-transit and outstanding checks. \$19,501,137 of the County's deposits were exposed to custodial credit risk and were uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended. In addition, \$921,744 was exposed to custodial credit risk and were uninsured and not otherwise collateralized.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

Investments

As of December 31, 2012, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

Governmental Funds	Maturities	Fair Value
Internal Service Fund:		\$
U.S government agency	1-10 years	1,283,116
Money market funds	N/A	<u>5,466</u>
Total		<u>\$ 1,288,582</u>
Pension Trust Fund	Maturities	Fair Value
Common stock	N/A	\$ 74,861,946
Corporate bonds	1-30 years	20,537,520
U.S. government obligations	6-30 years	17,566,284
Mutual funds	N/A	12,076,245
Certificates of deposit	N/A	10,927,202
Money market	N/A	<u>1,749,366</u>
Total		<u>\$ 137,718,563</u>

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, 2012, no one issuer totaled more than five percent of the Pension Trust Fund's net assets. The Pension Trust Fund's investment policy requires all bonds to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County's investments in debt securities of the Governmental funds had the following credit risk at December 31, 2012:

Investment	S&P Rating	%
U.S government obligations	AA+	<u>100.00 %</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2012:

Investment	S&P Rating	%
U.S government obligations	AA+	47.56
Corporate bonds	Aaa	9.39
Corporate bonds	AA	3.21
Corporate bonds	AA+	5.00
Corporate bonds	AA-	3.75
Corporate bonds	A	11.63
Corporate bonds	A+	8.58
Corporate bonds	A-	7.02
Corporate bonds	BBB	0.56
Corporate bonds	BBB+	3.30
Total		<u>100.00</u> %

4. Real Estate Taxes

The total tax on real estate in 2012 was 55.000 mills (\$0.055000 per \$1,000 of assessed valuation). Of this amount, 51.18 mills were levied for general and debt service purposes, 2.820 mills were levied for library services in the County and 1 mill was levied for culture and education fund purposes. Amounts collected for library services are remitted to the Lackawanna County Library System.

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

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

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

Delinquent real estate taxes receivable at December 31, 2012 were approximately \$17,300,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$9,100,000.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

5. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2012, was as follows:

	January 1, 2012	Acquisitions	Disposals	Transfer	December 31, 2012
Capital assets not being depreciated:					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	1,188,601	1,310,351	-	(132,720)	2,366,232
Total capital assets, not being depreciated	4,721,836	1,310,351	-	(132,720)	5,899,467
Capital assets being depreciated:					
Buildings and improvements	114,098,833	372,603	-	12,179	114,483,615
Machinery and equipment	37,183,426	597,339	-	-	37,780,765
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	36,414,744	382,128	-	120,541	36,917,413
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	197,847,895	1,352,070	-	132,720	199,332,685
Less accumulated depreciation for:					
Buildings and improvements	(25,445,122)	(2,811,861)	-	-	(28,256,983)
Machinery and equipment	(31,242,495)	(1,635,300)	-	-	(32,877,795)
Equipment under capital lease	(592,536)	(94,884)	-	-	(687,420)
Infrastructure	(28,512,426)	(394,983)	-	-	(28,907,409)
Investment in Airport	(3,046,849)	(161,226)	-	-	(3,208,075)
Total accumulated depreciation	(88,839,428)	(5,098,254)	-	-	(93,937,682)
Net capital assets being depreciated	109,008,467	(3,746,184)	-	132,720	105,395,003
Governmental activities capital assets, net	\$ 113,730,303	\$ (2,435,833)	\$ -	\$ -	\$ 111,294,470

County of Lackawanna, Pennsylvania

Notes to Financial Statements December 31, 2012

6. Long-Term Obligations

Description	January 1, 2012	Additions	Payments / Refunding	December 31, 2012	Current Portion
General Obligation Bonds, Series A of 2002	\$ 6,020,000	\$ -	\$ 6,020,000	\$ -	\$ -
General Obligation Bonds, Series B of 2002	2,670,000	-	2,670,000	-	-
General Obligation Bonds, Series A of 2004	4,265,000	-	1,085,000	3,180,000	610,000
Taxable General Obligation Bonds, Series C of 2004	2,560,000	-	5,000	2,555,000	5,000
General Obligation Bonds, Series D of 2004	6,935,000	-	2,215,000	4,720,000	2,310,000
General Obligation Bonds, Series A of 2007	14,225,000	-	-	14,225,000	-
General Obligation Bonds, Series B of 2007	17,980,000	-	45,000	17,935,000	50,000
General Obligation Notes, Series A of 2008	44,520,000	-	5,000	44,515,000	5,000
General Obligation Notes, Series D of 2008	13,858,652	-	605,000	13,253,652	612,971
General Obligation Bonds, Series E of 2008	16,250,000	-	895,000	15,355,000	930,000
Taxable General Obligation Bonds, Series A of 2009	7,345,000	-	10,000	7,335,000	10,000
General Obligation Notes, Series B of 2009	26,480,000	-	5,000	26,475,000	5,000
Taxable General Obligation Notes, Series A of 2010	3,219,000	-	309,000	2,910,000	353,000
General Obligation Bonds, Series B of 2010	58,490,000	-	50,000	58,440,000	50,000
General Obligation Notes, Series of 2011	21,000,000	-	1,679,000	19,321,000	1,763,000
General Obligation Notes, Series A of 2012	-	6,085,000	115,213	5,969,787	138,000
General Obligation Notes, Series B of 2012	-	2,726,000	240,884	2,485,116	261,000
Total	245,817,652	8,811,000	15,954,097	238,674,555	7,102,971
Bond premiums, discounts and deferred refunding	(5,596,448)	-	357,607	(5,238,841)	-
	<u>\$ 240,221,204</u>	<u>\$ 8,811,000</u>	<u>\$ 15,596,490</u>	<u>\$ 233,435,714</u>	<u>\$ 7,102,971</u>

Governmental Activities

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 were partially advance refunded in 2008 and fully refunded in 2012.

During 2002, the County issued \$4,425,000 of general obligation bonds (Series B of 2002) on behalf of the LCPACA to finance construction of the facility. These bonds were currently refunded in 2012.

During 2004, the County issued \$10,110,000 of general obligation bonds (Series A of 2004) to currently refund a 1994 bond issue, finance various capital projects, and fund a deposit to the Debt Service Fund. These bonds are due in varying annual installments plus interest at rates ranging from 4.25% to 5.00%, with final maturity scheduled for 2015.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

During 2004, the County issued \$4,210,000 of taxable general obligation bonds (Series C of 2004) to finance the payment of unfunded accrued actuarial pension obligations of the County and fund a deposit to the Debt Service Fund. These bonds are due at varying annual installments to begin in 2008 plus interest at rates ranging from 5.20% to 5.35%, with final maturity scheduled for 2019.

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, 2012), with final maturity scheduled for 2014.

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. These bonds were partially advance refunded in June 2009. Advance funding was paid to the paying agent which defeased a portion of the bonds in June 2009, consisting of the principal payments due in 2009 through 2017.

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

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 and to pay the costs of issuance. The bonds are due in varying annual installments plus interest at variable rates (0.69% at December 31, 2012 for Series A) with final maturity scheduled for September 2035 (Series A and B of 2008) and October 2029 (Series C of 2008). The County also rolled the rate swaps on its Series B of 2005 and Series A of 2006 general obligation bonds into an interest rate swap on the new notes. The County did not pay or receive any cash as a result of this transaction during 2008. Advance refunding of the 2008 C Bond was paid to the paying agent which defeased the bond in June 2009. The Series B bonds were advance refunded in October 2010. Advance funding was paid to the paying agent which defeased the Series B bonds in October 2010.

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. Principal due in 2013 on the Series D Bonds is \$612,971. The Series E of 2008 bonds are due in varying annual installments plus interest at rates ranging from 3.75% to 6.125% with final maturity scheduled for January 2022.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

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

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

During 2010, the County issued \$3,319,000 (Series A of 2010) of taxable general obligation notes. The proceeds of the notes were used to currently refund the County's Series B of 1999 general obligation bonds and to pay the costs of issuance. The notes are due in varying annual installments plus interest at a rate of 4.94%, with final maturity scheduled for February 2019. Of the \$3,319,000 borrowing, \$2,499,000 related to funds that were loaned to the LCPACA, and \$820,000 related to County projects. The County is receiving periodic payments of principal and interest from LCPACA, amounting to \$232,646 in principal during 2012, on its share of this obligation. Principal due in 2013 on the County's share of this borrowing is \$87,226. The County also agreed to fund any operating expenses of the LCPACA if its revenues under a Concert Concession Agreement were insufficient. At December 31, 2012, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 14.

During 2010, the County issued \$58,540,000 (Series B of 2010) of general obligation bonds. The proceeds of the bonds were used to currently refund the County's Series B of 2008 general obligation bonds and terminate the related interest rate swap agreement. The bonds are due in varying annual installments plus interest at rates ranging from 1.70% to 5.00%, with final maturity scheduled for September 2035. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 Series A & B general obligation bonds and paid approximately \$10,183,000 upon termination from the proceeds of its Series B of 2010 general obligation bonds.

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

During 2011, the County issued \$21,000,000 (Series of 2011) of general obligation notes to finance unfunded debt of the County, including certain outstanding obligations of current and prior years and to fund the costs and expenses of issuing the 2011 note. These notes are due in varying monthly installments plus interest at a fixed-rate of 4.75%, with final maturity scheduled for December 2021. If the Note is considered taxable at any time, it shall mature in installments of principal and interest at the maximum taxable rate of interest of 18%. The Note is subject to extraordinary mandatory redemption by the County prior to maturity to the extent that there are "available amounts" in the preceding fiscal year as determined by the County pursuant to the IRS regulations.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

During 2012, the County issued \$6,085,000 (Series A of 2012) of general obligation notes. The proceeds of the notes were used to currently refund the County's outstanding Series A of 2002 general obligation bonds. The notes are due in varying installments of principal and interest at a fixed rate of 3.94% with final maturity scheduled for October 2020.

During 2012, the County issued \$2,726,000 (Series B of 2012) of general obligation notes. The proceeds of the notes were used to currently refund the County's outstanding Series B of 2002 general obligation bonds. The notes are due in varying installments of principal and interest at a fixed rate of 5.64% with final maturity scheduled for October 2020.

The 2012 refunding transactions reduced the County's total debt service payments by approximately \$305,000, resulting in a net economic gain of approximately \$400,000.

Interest paid on these bonds and notes during the year ended December 31, 2012 amounted to \$12,146,598, including swap related interest payments amounting to approximately \$1,730,000.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, exclusive of the effect of the interest rate swaps (Note 7), as of December 31, 2012. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,102,971	\$ 9,964,354	17,067,325
2014	7,701,042	9,649,799	17,350,841
2015	7,355,893	9,983,118	17,339,011
2016	7,668,494	9,668,320	17,336,814
2017	7,856,173	9,494,672	17,350,845
2018 – 2022	43,148,897	47,580,486	90,729,383
2023 – 2027	51,566,085	30,521,049	82,087,134
2028 – 2032	64,995,000	17,448,607	82,443,607
2033 – 2037	41,280,000	3,221,313	44,501,313
Total	<u>\$ 238,674,555</u>	<u>\$ 147,531,718</u>	<u>\$ 386,206,273</u>

Defeased Debt

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities or securities collateralized by U.S. government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. At December 31, 2012, the amount of defeased bonds outstanding was \$33,275,000.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

At December 31, 2012, the following bonds outstanding had been defeased by the County:

Series	Final Maturity	Outstanding Principal at December 31, 2012
General Obligation Bonds, Series A of 1999	2022	\$ 11,365,000
General Obligation Bonds, Series A of 2007	2017	4,105,000
General Obligation bonds, Series B of 2007	2022	11,080,000
General Obligation Notes, Series C of 2008	2029	<u>6,725,000</u>
Total		<u>\$ 33,275,000</u>

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2012:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying semiannual installments plus interest at 6.5%, maturing 2013.	<u>\$ 785,211</u>
<u>Lackawanna River Basin Sewer Authority</u>	
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through August 2012) and matures in August 2032. Reported net of unamortized discount of \$7,288 and unamortized issuance costs of \$76,634.	1,151,074
PENNVEST note, that bears interest at 1.274% for years 1 to 5 and 2.574% for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through September 2012) and matures in September 2032. Reported net of unamortized bond premium and issuance costs of \$115,394.	23,693,134
Sewer Revenue Bonds, Series of 2009, due in varying installments with interest payable semiannually at rates ranging from 1.00% to 2.75%; maturing 2015.	<u>1,045,000</u>
Total Lackawanna River Basin Sewer Authority	<u>25,889,208</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

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Lackawanna County Performing Arts Center Authority

County General Obligation Bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.875% to 7.000%; final maturity scheduled for 2018. Reported net of unamortized discount of \$11,978.	\$ 2,073,022
County General Obligation Bonds, Series B of 2002, due in varying annual installments plus interest at rates ranging from 2.65% to 6.85%; final maturity scheduled for 2020.	<u>2,445,000</u>
Total Lackawanna County Performing Arts Center Authority	<u>4,518,022</u>

Multi-Purpose Stadium Authority

Hotel Room Rental Tax Revenue Note, Series A of 2012 due in varying installments in July of each year commencing July 2013. Interest payments are due semi-annually in January and July at a variable interest rate equivalent to the one month LIBOR plus 340 basis points at 65% plus 14 basis points. The rate at December 31, 2012 was 2.49%, final maturity scheduled for July 2034.	7,145,000
Hotel Room Rental Tax Revenue Note, Series B of 2012 due in varying installments in July of each year commencing July 2013. Interest payments are due semi-annually in January and July at a variable interest rate equivalent to the one month LIBOR plus 340 basis points at 65% plus 14 basis points. The rate at December 31, 2012 was 2.49%, final maturity scheduled for July 2036.	7,183,000
Stadium Facility Revenue Note, Series of 2012 due in varying installments in July of each year commencing July 2013. Interest payments are due semi-annually at a variable interest rate equivalent to the one month Libor plus 354 basis points. The rate at December 31, 2012 was 3.75%. Final maturity scheduled for July 2036.	<u>5,704,000</u>
Total Multi-Purpose Stadium Authority	<u>20,032,000</u>
Total Discretely Presented Component Units	<u>\$ 51,224,441</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

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>
2013	\$ 3,068,854
2014	2,836,243
2015	2,176,098
2016	2,124,308
2017	2,213,193
2018 – 2022	10,519,132
2023 – 2027	10,279,136
2028 – 2032	11,730,377
2033 – 2037	<u>6,373,000</u>
Total	51,320,341
Less unamortized discount	<u>(95,900)</u>
Total	<u>\$ 51,224,441</u>

Scranton Lackawanna Health and Welfare Authority

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

SLHWA, as a result of the assignments, has no ongoing obligation for the debt but has chosen to include the debt and the related future rental receivable in its financial statements. As of December 31, 2011, there was one general obligation bond issue outstanding and eight notes and mortgages outstanding with an aggregate balance of \$48,828,132.

**7. Service Concession Arrangement –
Lackawanna County Performing Arts Center Authority**

In January 2012, LCPACA entered into a long-term Service Concession Arrangement with a private company (the "Operator") for the primary purpose of leveraging LCPACA's assets to generate cash resources. Pursuant to the agreement, the Operator will operate and collect revenue from the Ampitheatre for a 10-year term ending December 31, 2021, with a cancellation clause allowing the Operator to terminate the agreement with written notice on December 31, 2016. LCPACA will receive \$550,000 annually over the term of the agreement, which has been recorded within the statement of net position as deferred inflows of resources – deferred concession arrangement.

8. Derivative Financial Instrument – Basis Swap

Objective of the Basis Swap

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

Terms

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

Fair Value

At December 31, 2012, the swap had a negative fair value of \$9,590,238, which is reported as investment derivative – pay variable / receive variable basis swap in the governmental activities section of the statement of net assets. Changes in the fair value are reported as investment income in the governmental activities section of the statement of activities.

Credit Risk

As of December 31, 2012, the County was not exposed to credit risk because the 2010 Swap had a negative fair value. However, should interest rates change and the fair value of the 2010 Swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

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

Interest Rate Risk

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

Basis Risk

The County is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At December 31, 2012, the associated debt used the LIBOR index and the counterparty's payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

Termination Risk

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

In light of recent debt rating declines of the County, a risk of a Swap Agreement Termination exists related to the 2010 Swap Agreement. Potential termination events included in the 2010 Swap agreement include default or a decrease in credit rating of either the County or the counterparty. In March 2012, the County and the Counterparty reached a forbearance agreement that indicated the County's credit rating withdrawal would not constitute an early termination event.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

9. Capital Lease Payable

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

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

Balance, January 1, 2012	\$ 627,811
Decrease	<u>(164,786)</u>
Balance, December 31, 2012	463,025
Less current portion	<u>172,651</u>
Long-term portion of capital lease payable	<u>\$ 290,374</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 leases along with the present value of the net minimum lease payments as of December 31, 2012:

Years ending December 31

2013	\$ 190,617
2014	190,617
2015	<u>111,193</u>
Total minimum lease payments	492,427
Less amounts representing interest	<u>29,402</u>
Present value of net minimum lease payments	<u>\$ 463,025</u>

Total interest paid on this capital lease in 2012 was \$25,831.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

10. Compensated Absences

The changes in the County's compensated absences in 2012 are summarized as follows:

Balance, January 1, 2012	\$ 2,253,622
Increase	1,758,337
Decrease	<u>(1,110,766)</u>
Balance, December 31, 2012	2,901,193
Less current portion	<u>237,399</u>
Long-term compensated absences	<u>\$ 2,663,794</u>

The County pays its compensated absences from the General Fund.

11. Pension Plans

Plan Description

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

Membership of the Plan consisted of the following at December 31, 2012, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	603
Terminated plan members entitled to but not yet receiving benefits	248
Active plan members	<u>1,038</u>
Total	<u>1,889</u>
Number of participating employers	<u>1</u>

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

The County's annual pension cost and net pension obligation for the current year were calculated as follows:

Annual required contribution	\$ 4,089,804
Interest on net pension asset	1,405,496
Adjustment to annual required contribution	(2,271,166)
Annual pension cost	3,224,134
Contributions made	500,000
Increase in net pension obligation	(2,724,134)
Net pension obligation, beginning of year	(18,739,940)
Net pension obligation, end of year	\$ (21,464,074)

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, at which time the County changed to the Entry Age normal method.

Historical trend information for the Plan is presented below:

Annual Pension Cost (APC)	County Contribution	Percentage of APC Contributed	Net Pension Obligation
\$ 4,270,343	\$ 65,733	1.5%	\$ 15,491,675
3,248,265	-	0.0%	18,739,940
3,224,134	500,000	15.5%	21,464,074

Information regarding the Plan can be obtained from the County.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

12. Fund Balance Classifications

The County presents its governmental fund balances by level of constraint in the aggregate on its balance sheet – governmental funds. The individual specific purposes of each constraint are presented below:

	General Fund	Health and Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Non-spendable for:						
Inventory	\$ 29,643	\$ -	\$ -	\$ -	\$ -	\$ 29,643
Prepaid expenses	259,758	-	-	-	-	259,758
Total non-spendable	\$ 289,401	\$ -	\$ -	\$ -	\$ -	\$ 289,401
Restricted for:						
Grant programs	\$ -	\$ 1,038,348	\$ -	\$ -	\$ 813,557	\$ 1,851,905
Debt service	-	-	4,722,931	-	-	4,722,931
Capital projects	-	-	-	4,467,687	-	4,467,687
Total restricted	\$ -	\$ 1,038,348	\$ 4,722,931	\$ 4,467,687	\$ 813,557	\$ 11,042,523

13. Deficit Fund Balances

The individual non-major funds that have net deficit balances at December 31, 2012 are the Liquid Fuels Fund with a deficit of \$726,168, the Domestic Relations Fund with a deficit of \$88,642, the 911 Fund with a deficit of \$382,353, the Bridge Housing Grant Fund with a deficit of \$21,439, and the Landfill Trust Fund with a deficit of \$1,134. Such deficits resulted from the County not funding 100% of the operating deficits of these activities in past years and will be funded in 2013 operating subsidy payments.

The Internal Service Fund has a net deficit of \$169,280 at December 31, 2012. This deficit results from the County electing only to fund the minimum asset reserve required by the Commonwealth of Pennsylvania for self-insured entities.

The Lackawanna County Redevelopment Authority, a discretely presented component unit, has a net deficit of \$731,213 at December 31, 2012. The deficit resulted from the financing of the PEI Power Park and Taylor Commons infrastructure through the use of tax increment financing notes. Debt service payments on these notes are made from incremental real estate tax levies by the taxing authorities within whose jurisdictions the project exists. The Redevelopment Authority anticipates the deficit to be substantially eliminated by the year 2013 when the notes mature.

14. Self Insurance

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements
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The County has elected to self-insure its workers' compensation risk. The County established an Internal Service Fund to account for all the transactions associated with its self-insurance. The Internal Service Fund charges the County's other funds an amount equal to its estimated annual cost. The County is responsible for payment of the first \$500,000 per claim, after which point, the County's excess claim policy (commercial insurance) covers any additional losses.

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 2012 are as follows:

Balance, January 1, 2012	\$ 1,640,222
Claims incurred	592,037
Claims paid	<u>(709,582)</u>
Balance, December 31, 2012	<u>\$ 1,522,677</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.

15. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2012 are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 6,405,089	\$ 1,486,281
Health and Human Services Funds	722,548	6,297
Debt Service Fund	3,210,425	2,820,305
Capital Projects Fund	757,881	3,519,322
Non-Major Funds	162,478	907,628
Agency Fund	-	<u>2,518,588</u>
Total	<u>\$ 11,258,421</u>	<u>\$ 11,258,421</u>

The amounts due to the General Fund are generally for payroll and other operating costs initially funded by the General Fund on behalf of the other funds.

The Capital Projects Fund owes the Debt Service Fund \$3,000,000 related to a Commonwealth of Pennsylvania Redevelopment Assistance Capital Project grant used to finance capital construction that were initially paid from debt service proceeds.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2012

Interfund transfers in 2012 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
General Fund	\$ 187,294	\$ 187,294
Health & Human Services Fund	-	131,661
Capital Projects Fund	409,926	1,600,000
Non-Major Funds	1,898,249	2,191,327
Internal Service Fund	5,232	924,900
Total General Fund	<u>2,500,701</u>	<u>5,035,182</u>
Health & Human Services Fund, General Fund	<u>131,661</u>	<u>-</u>
Capital Projects Fund:		
General Fund	1,600,000	-
Non-Major Funds	5,180	409,926
Total Capital Projects Fund	<u>1,605,180</u>	<u>409,926</u>
Non-Major Funds:		
General Fund	2,191,327	1,898,249
Capital Projects Fund	-	5,180
Non-Major Funds	13,767	13,767
Total Non-Major Fund	<u>2,205,094</u>	<u>1,917,196</u>
Internal Service Fund, General Fund	<u>924,900</u>	<u>5,232</u>
Totals	<u>\$ 7,367,536</u>	<u>\$ 7,367,536</u>

The General Fund transferred funds to the Human Services Development Fund (a component of the Health and Human Services Fund) (\$131,661) as an operating subsidy, to the Capital Projects Fund (\$1,600,000) to fund future capital projects and to the Internal Service Fund (\$924,900) to fund workers compensation claims incurred by the County during the year.

Transfers in to the Non-Major Funds were primarily used for operational costs of Domestic Relations \$1,020,895, Community Development Block Grant \$421,725 and Emergency 9-1-1 \$679,834. In addition, transfers out of the Non-Major Funds were used primarily to transfer the Hotel Rental Tax revenues of \$1,894,476 to cover debt service payments.

Due From/To Component Units

At December 31, 2012, the County owed COLTS \$129,703 for its portion of the required local match. Since COLTS has a fiscal year-end of June 30, 2012, the amounts shown in the financial statements do not agree.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

The County has advanced \$8,400,000 to the MPSA primarily to fund MPSA's capital projects. This advance is expected to be received during 2013 when MPSA receives its Commonwealth Redevelopment Assistance Capital Program Grants.

The County has advanced \$1,083,766 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility (\$150,000) and to fund debt service payments (\$933,766). In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of \$5,093,710 within its governmental activities statement of net position.

16. 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.

In August 2010, Luzerne County, Pennsylvania filed suit against the MPSA alleging that they would be entitled to one-half of any franchise sale proceeds if the MPSA's baseball franchise were to be sold. In the opinion of management, and after consultation with legal counsel, the MPSA is entitled to the entire amount of the sales proceeds. The matter is currently in litigation and its outcome cannot be ascertained. The sale of the franchise to SWB Yankees LLC was completed in April 2012 and the MPSA set aside one-half of the sale proceeds until final disposition of this matter.

The County is currently involved as the plaintiff in a lawsuit pertaining to the collapse of the roof at the Toyota Pavilion, which was part of the Lackawanna County Performing Arts Center Authority's capital assets. The damages being litigated amount to approximately \$1,600,000. If the County is successful, the County anticipates using part of the award to reduce amounts owed to the County by the Authority and to help defray the costs incurred to reconstruct the roof. At the present time it is not possible to determine the outcome of the lawsuit.

17. Concentration Of Labor

At December 31, 2012, approximately 66% of the County's employees are represented by unions, whose existing labor agreements expire on December 31, 2013 and December 31, 2014.

18. 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.

19. New Accounting Pronouncements

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

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The County is required to adopt Statement No. 65 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*. This statement addresses certain technical corrections to resolve conflicting guidance related to accounting for risk financing activities and the treatment of leases with scheduled rent increases. To the extent applicable, the County is required to adopt Statement No. 66 for its calendar year 2013 financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. This statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of *Statement No. 27, Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. To the extent applicable, the County is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2012

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. To the extent applicable, the County is required to adopt Statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The County is required to adopt Statement No. 70 for its calendar year 2014 financial statements.

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

County of Lackawanna, Pennsylvania					
Statement of Revenues, Expenditures and Changes in Fund Balances - General, Liquid Fuels, and Debt Service Funds Budget and Actual - Unaudited					
Year Ended December 31, 2012					
	General Fund		Debt Service Fund		
	Original and Final Budget	Actual	Favorable Variance (Unfavorable)	Original and Final Budget	Actual
					Variance Favorable (Unfavorable)
Revenues					
Taxes	\$ 54,407,673	\$ 52,984,700	\$ (1,422,973)	\$ 19,518,534	\$ 18,621,606
Payments in-lieu of taxes	231,500	206,457	(25,043)	-	-
Grants	18,320,452	17,191,824	(1,128,628)	-	-
Charges for services	18,397,546	18,466,496	68,950	-	-
Interest and rent	81,000	25,932	(55,068)	-	4,316
Court costs, fines and forfeitures	55,600	15,373	(40,227)	-	-
Contributions and other	289,500	356,409	66,909	-	-
Total revenues	91,783,271	89,247,191	(2,536,080)	19,518,534	18,625,922
Expenditures					
General government - administrative	20,084,213	16,090,625	3,993,588	-	36,250
General government - judicial	18,942,501	18,144,717	797,784	-	-
Public safety	29,228,727	27,546,700	1,682,027	-	-
Public works	142,028	71,080	70,948	-	-
Human services	17,759,777	16,835,236	924,541	-	-
Culture and recreation	2,886,256	2,673,705	212,551	-	-
Conservation and development	398,382	384,432	13,950	-	-
Miscellaneous expense	795,013	878,408	(83,395)	-	-
Debt service:					
Principal	-	-	-	5,380,538	5,883,151
Interest	225,000	165,812	59,188	14,131,072	12,256,392
Total expenditures	90,461,897	82,790,715	7,671,182	19,511,610	18,175,803
Excess (Deficiency) of Revenues Over Expenditures	1,321,374	6,456,476	5,135,102	6,924	443,119
Other Financing Sources (Uses)					
Proceeds from Multi-Purpose Stadium Authority	-	14,600,000	14,600,000	-	-
Capital grant to Multi-Purpose Stadium Authority	-	(9,125,603)	(9,125,603)	-	-
Loan to Multi-Purpose Stadium Authority	-	(7,300,000)	(7,300,000)	-	-
Stadium Authority	-	-	-	-	-
Note proceeds	-	-	-	-	8,811,000
Note issue costs	-	-	-	-	(121,000)
Payments to escrow agent for bond refunding	-	-	-	-	(8,690,000)
Transfers in	-	2,500,702	2,500,702	-	-
Transfers out	(1,250,000)	(5,035,192)	(3,785,192)	-	-
Total other financing sources (uses), net	(1,250,000)	(4,360,083)	(3,110,083)	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	71,374	2,096,393	2,025,019	6,924	443,119
Fund Balance, Beginning	6,185	(635,241)	(641,426)	174,359	4,272,812
Fund Balance, Ending	\$ 77,559	\$ 1,461,152	\$ 1,383,593	\$ 181,283	\$ 4,541,648

County of Lackawanna, Pennsylvania

Required Supplemental Information - Schedule of Funding Progress

Unaudited

December 31, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL As A Percentage of Covered Payroll ((b-a)/c)</u>
January 1, 2006	\$ 104,954,131	\$ 114,543,257	\$ 9,589,126	91.6%	\$ 45,474,796	21.1%
January 1, 2007	118,608,487	124,198,042	5,589,555	95.5%	48,978,779	11.4%
January 1, 2008	133,074,285	135,787,677	2,713,392	98.0%	53,566,168	5.1%
January 1, 2009	126,590,597	148,389,777	21,799,180	85.3%	54,182,910	40.2%
January 1, 2010	124,908,886	159,480,512	34,571,626	78.3%	55,494,144	62.3%
January 1, 2011	126,642,687	164,450,651	37,807,964	77.0%	44,109,822	85.7%
January 1, 2012	131,696,720	174,890,950	43,194,230	75.3%	45,110,910	95.8%

The actuarial assumptions used in the January 1, 2012 actuarial valuation, the most recent actuarial valuation included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.50%, and (c) cost-of-living adjustments provided at the discretion of the Lackawanna County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.