County of Lackawanna, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2017

BAKER TILLY

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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 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, 2017, 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.

Auditors' 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 Youth and Family Services (a department of the General Fund), which represents 13.6% of the revenues of the General Fund and 8.1% of the 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 89.6%, 79.2%, and 64.4%, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 1.1%, (0.9)%, and 12.3%, 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 97.0%, 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 Redevelopment Authority of the County of Lackawanna, 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 reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lackawanna County Department of Human Services Office of Youth 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, Redevelopment Authority of the County of Lackawanna, 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 from material misstatement. The financial statements of Scranton Lackawanna Health and Welfare Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority, reported as discretely presented component units, and the Pension Trust Fund, reported as a blended fiduciary fund, were not audited in accordance with *Government Auditing Standards*.

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 reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania, as of December 31, 2017, 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 13, the budgetary comparison information on page 64, the schedule of changes in net pension liability and related ratios on page 65, and the schedule of employer contributions on page 66 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 and other auditors 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 sufficient evidence 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, 2018 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
September 27, 2018

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, 2017 compared to the year ended December 31, 2016. 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 its assets by $99,768,702 at December 31, 2017.

General Fund revenues exceeded expenditures in 2017 by $576,966. This increased the General Fund balance from $24,942,407 at December 31, 2016 to a fund balance of $25,519,373 at December 31, 2017. The $576,966 increase in fund balance includes an expenditure of $5,500,000 that resulted from the settlement of litigation related to the Multi-Purpose Stadium Authority's sale of its AAA baseball franchise during 2012. While a long-term liability and corresponding long-term receivable of $7.3 million had been established by the County prior to 2015, receipts of $5.5 million against that receivable had been recorded as revenue during 2015 and 2016 in the County's General Fund according to the standards for modified accrual financial statements for those years.

Even with the uncommon $5.5 million charge to expenditures, mentioned above, the County generated an operating surplus in 2017. 2017 marked the fourth consecutive year that the County did not have a need to increase the tax burden on the County's constituents. The Commissioners were able to present a 2018 County Budget without any real estate tax increase, and the Commissioners expect to present a 2019 County Budget without the need for an increase in real estate taxes.

During 2017, the County also complete a bond refunding that reduced its total debt service payments over the next 19 years by approximately $5.4 million.

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 14-15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The County 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 collectively 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 64.

The basic fund financial statements can be found on pages 16-22 of this report.

Fiduciary Funds

The County accounts for the assets held under trust or in an agent capacity in fiduciary funds. Assets held in trust in the County retirement plan are accounted for in the Pension Trust Fund. Assets held in a custodial or agent function are accounted for in the Agency Fund. Fiduciary funds are not reported in the government-wide financial statements since they are not available to support the County operations.

The basic Fiduciary Fund financial statements can be found on pages 23-24 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 27-63 of this report.

Governmental Activities Condensed Statement of Net Position (Deficit)
December 31, 2017 and 2016

	2017	2016
Assets and Deferred Outflows of Resources		
Current and other assets	$ 71,649,442	$ 74,032,242
Capital assets, net	122,447,033	122,927,541
Total assets	194,096,475	196,959,783
Deferred outflows of resources - pension	10,119,217	11,200,189
Total	204,215,692	208,159,972
Liabilities, Deferred Inflows of Resources		
Current liabilities	30,179,452	32,892,134
Long-term and other liabilities	272,012,310	269,255,394
Total liabilities	302,191,762	302,147,528
Deferred inflows of resources	1,792,632	1,440,401
Net Position (Deficit)		
Net investment in capital assets	(68,881,022)	(72,236,165)
Restricted	3,847,035	3,377,190
Unrestricted	(34,734,715)	(26,568,982)
Total net deficit	$ (99,768,702)	$ (95,427,957)

Total assets and deferred outflows of resources of the Lackawanna County primary government decreased by $3,994,280 from 2016 to 2017 from $208,159,972 to $204,215,692.

The most notable changes in the County's "Governmental Activities Condensed Statement of Net Position (Deficit)" include a decrease in the County's Cash Held for Capital Projects of approximately $5.5 million. This decrease is a result of the County's settlement of litigation with Luzerne County related to the sale of the Multi-Purpose Stadium Authority's baseball franchise.

Condensed Statement of Governmental Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Governmental Activities		
Program Revenues:		
Charges for services	$ 34,049,074	$ 29,950,806
Operating grants and contributions	56,797,267	56,695,734
Capital grants and contributions	4,433,403	4,143,371
General Revenues:		
Tax levy for general and debt purposes, net	80,095,547	80,814,918
Change in fair value of investment derivative	612,177	(743,596)
Contributions and other, net	(1,561,538)	1,781,651
Total revenues	174,425,930	172,642,884
Expenses:		
General government - administrative	29,834,994	24,146,379
General government - judicial	25,365,801	23,514,919
Corrections	39,458,220	37,384,511
Public works and enterprises	3,871,326	3,578,772
Human services	50,961,777	50,167,918
Culture and recreation	6,495,463	7,135,483
Conservation and development	3,865,387	2,210,837
Depreciation	5,725,549	5,652,227
Interest-long-term debt	13,188,158	14,942,685
Total expenses	178,766,675	168,733,731
Changes in net deficit	(4,340,745)	3,909,153
Net deficit, beginning	(95,427,957)	(99,337,110)
Net deficit, ending	$ (99,768,702)	$ (95,427,957)

The County's net deficit, ending, reflected in the "Condensed Statement of Governmental Activities" increased by $4.3 million between December 31, 2016 and December 31, 2017. This net increase in net deficit, ending, was a result of expenditures exceeding revenues by $4.3 million. In 2017, while revenues increased by approximately $1.8 million, mostly from charges for services derived from inmate phone revenue and fees for housing U.S. Marshall's prisoners, expenses increased by approximately $10 million. The increase in expenses was due to the $5.5 million baseball litigation settlement, and Corrections and General Government – judicial increases in salaries and benefits resulting from newly negotiated labor contracts.

Financial Analysis of the Funds
General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2016.

	2017 Amount	2016 Amount	Increase (Decrease)	% Change
Taxes	$ 63,274,817	$ 60,043,854	$ 3,230,963	5.38 %
Intergovernmental	17,107,297	17,391,293	(283,996)	(1.63)
Charges for service	24,086,988	21,471,561	2,615,427	12.18
Other	1,392,800	922,115	470,685	51.04
Transfers in	591,494	2,574	588,920	(100.00)
Total revenue	$ 106,453,396	$ 99,831,397	$ 6,621,999	6.63 %

Total revenue in the General Fund increase by $6,621,999 or approximately 6.6% from 2017 to 2016.

The increase in revenue between 2016 and 2017 is principally made up of increases in Tax Revenues and Charges for Services. The increase in tax collections is primarily the result of the Tax Claim office continuing to execute judicial sales and the creation of a Land Bank to facilitate getting properties back on the tax rolls. Together these steps improved delinquent tax collections and as a result the current tax collection rate also increased nominally. Charges for Services increased because the Prison entered into a new inmate telephone service contract, during 2017, which generated an upfront payment from the vendor amounting to $675,000. In addition the County was successful in negotiating an increased rate for housing U.S. Marshall's prisoners which generated approximately $2 million more in 2017 compared to 2016.

The following represents a summary of General Fund expenditures, by function, along with changes from 2016.

	2017 Amount	2016 Amount	Increase (Decrease)	% Change
General government - administrative	$ 24,578,163	$ 20,508,635	$ 4,069,528	19.84 %
General government - judicial	22,443,859	20,708,127	1,735,732	8.38
Public safety - corrections	34,702,637	32,861,323	1,841,314	5.60
Public works	126,906	80,731	46,175	57.20
Health and human services	16,103,013	15,158,060	944,953	6.23
Culture and recreation	2,626,878	2,518,269	108,609	4.31
Community and economic development	788,728	435,882	352,846	80.95
Miscellaneous	715,531	632,755	82,776	13.08
Interest	-	14,595	(14,595)	(100.00)
Transfers	3,790,725	4,875,700	(1,084,975)	(22.25)
Total expenses	$ 105,876,440	$ 97,794,077	$ 8,082,363	8.26 %

Total expenses in the General Fund increased by $8,082,363 or approximately 8.26% from 2017 to 2016.

Expenses within the general government - administrative category increased by $4 million principally because of the settlement of the baseball litigation which amounted to $5.5 million. This additional expense was offset to some extent by a $1 million decrease in pension expense, and savings in the general insurance category by approximately $1 million.

General government - judicial expenses increased by $1.7 million principally as a result of contractually obligated salary and wage increases mandated by collective bargaining agreements. Dramatic increases in the cost of health insurance also contributed to this $1.7 million increase, most notably the County's prescription coverage increased by 25% between 2016 and 2017.

Public Safety-Corrections increased by $1.8 million primarily due to contractual increases in salaries and wages mandated by collective bargaining agreements, principally in the Prison. In addition there were dramatic increases in health insurance costs, including the County prescription plan.

Transfers out decrease from 2016 to 2017 as a result of lower required subsidies for County health and human service programs.

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2017:

	2017 Budget	2017 Actual	Favorable (Unfavorable)	% Change
Taxes	$ 62,711,920	$ 63,274,817	$ 562,897	0.89 %
Intergovernmental	17,134,300	17,107,297	(27,003)	(0.16)
Charges for service	21,877,185	24,086,988	2,209,803	9.17
Other	406,722	1,392,800	986,078	70.80
Transfers in	-	591,494	591,494	100.00
Total revenue	$ 102,130,127	$ 106,453,396	$ 4,323,269	4.06 %

Overall, the County's General Fund revenue exceeded its budget by $4,323,269. Compared to the 2017 budget, tax collections were more than expected principally because the County is doing a better job with delinquent tax collections. Charges for Services exceeded the amounts budgeted because the Prison entered into a new inmate telephone service contract which generated an upfront payment from the vendor amounting to $675,000, in addition the County was successful in negotiating an increased rate for housing U.S. Marshall's prisoners which generated approximately $2 million more than anticipated when the budget was prepared.

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2017:

	2017 Budget	2017 Actual	Favorable (Unfavorable)	% Change	
General government - administrative	$ 20,648,728	$ 24,578,163	$ (3,929,435)	(15.99)	%
General government - judicial	22,356,120	22,443,859	(87,739)	(0.39)	
Public safety - corrections	35,373,100	34,702,637	670,463	1.93	
Public works	133,593	126,906	6,687	5.27	
Health and human services	16,449,609	16,103,013	346,596	2.15	
Culture and recreation	2,870,436	2,626,878	243,558	9.27	
Community and economic development	444,850	788,728	(343,878)	(43.60)	
Miscellaneous	860,528	715,531	144,997	20.26	
Debt service	30,000	-	30,000	0.00	
Transfers	4,587,315	3,790,725	796,590	21.01	
Total expenses	$ 103,754,279	$ 105,876,440	$ (2,122,161)	(2.00)	%

The total expenses for 2017 were $2,122,161 more than the amount budgeted for 2017.

Expenses within the general government - administrative category increased by $3.9 million compared to the amount budgeted for 2017, principally because of the settlement of the baseball litigation which amounted to $5.5 million. This additional expense was offset to some extent by a $1 million decrease in pension expense. Both events were not anticipated during the 2017 budget preparation.

Public safety - corrections has a positive budget variance of $670,463 compared to the amount budgeted for 2017, due mainly to the County Prison cost of insurance and inmate medical care being considerably less than originally anticipated.

Transfers has a positive budget variance due to the fact that the 2017 budget included a significant subsidy for the 911 Fund based on past history. However due to a change in PEMA's formulation of funding, the necessary subsidy for the 911 Fund was considerably less.

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 $897,606 and $1,025,370, respectively, as a result of decreases in the County's Human Services Development Block Grant and changes in the program funding and operations during 2017.

The Health and Human Service Fund has a negative fund balance of $359,943. This is an increased deficit of $290,075 from the 2016 final ending fund balance deficit of $69,868.

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. At December 31, 2017 and 2016, the County's debt service fund balances were $6,964,099 and $9,025,757, respectively.

See Note 7 for additional information regarding the County's outstanding debt.

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance decreased from to $3,276,568 at December 31, 2016 to $2,863,674 at December 31, 2017. The principal decrease in the County's Capital Projects Fund in 2017 was due to $1.2 million in expenditures for the new County Government Center, and an additional $5.3 million in expenditures for other capital projects, including roads and bridges that were offset to some extent by receipts of restricted funds for Road and Bridge projects which are held in the Capital Fund.

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 maintain an irrevocable trust account for the payment of future benefits. The County's actuarially determined reserve/estimate for unpaid losses amounted to $1,577,331 at December 31, 2017. The fund's total assets at December 31, 2017 were $1,556,850, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of $20,481 as of December 31, 2017. This is a decrease of $204,700 in the fund deficit of $225,181 reported at December 31, 2016.

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 $14,396,007 during 2017 resulting in Plan net position of $175,102,347 at December 31, 2016. Plan net position was $160,706,340 at December 31, 2016.

Plan contributions by members amounted to $4,468,203 and $4,198,386 in 2017 and 2016, respectively. Benefits paid to retired members were $10,582,291 and $8,998,990 in 2017 and 2016, 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 $5,468,438 in that role as of December 31, 2017.

Capital Assets

The County's investment in capital assets at December 31, 2017 and 2016, net of accumulated depreciation, was $122,447,033 and $122,927,541 for its governmental activities, respectively.

Capital assets consist primarily of land, buildings, equipment and infrastructure. The following is a summary of capital assets at December 31, 2017 and 2016:

Capital Assets, Governmental Activities
December 31, 2017

	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-wide:			
Land	$ 3,533,235	$ -	$ 3,533,235
Infrastructure	52,866,795	31,615,525	21,251,270
Investment in airport	8,727,567	4,014,208	4,713,359
Buildings and improvements	123,118,360	42,872,416	80,245,944
Machinery and equipment	49,160,392	41,847,525	7,312,867
Construction-in-process	5,390,358	-	5,390,358
Total county-wide	$ 242,796,707	$ 120,349,674	$ 122,447,033

December 31, 2016

	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-wide:			
Land	$ 3,533,235	$ -	$ 3,533,235
Infrastructure	51,423,131	31,012,487	20,410,644
Investment in airport	8,727,567	3,852,982	4,874,585
Buildings and improvements	122,751,467	39,917,292	82,834,175
Machinery and equipment	47,437,737	39,841,364	7,596,373
Construction-in-process	3,678,529	-	3,678,529
Total county-wide	$ 237,551,666	$ 114,624,125	$ 122,927,541

Detailed information about the County's capital assets can be found in Note 6 within the accompanying notes to the financial statements.

Long-Term Debt

As of December 31, 2017, the County's net general obligation debt was $213,279,745 net of related discount. Detailed information about the County's long-term debt can be found in Note 7 in the accompanying notes to the financial statements.

Economic Condition and Outlook

The County, in June 2017, was able to complete a refunding of outstanding 2007B bonds and an advance refunding of 2010B bonds, which will allow the County to realize debt service savings amounting to $5,251,491 over the remaining 19 year life of the former bond issues. The County will continue to investigate refunding opportunities of its existing debt load where opportunities arise.

In late 2017, the County issued bids for construction in the vacant department store building which they purchased in May 2016. The County awarded contracts for construction approximating $13.6 million. Including professional fees and moving expense, the total project cost will approximate $17 million. Once construction is complete, the County plans on consolidating most County offices into this building. The County anticipates savings in rent expense, from the leased buildings we are vacating, to exceed the annual debt service on this building. The County expects to occupy the building by the first quarter of 2019. Due to continuing austerity programs, the County was able to operate in a $576,966 surplus position in 2017. At December 31, 2016 the accumulated Unassigned General Fund surplus amounted to $23,613,755 and at December 31, 2017 the Unassigned General Fund surplus was $24,178,386.

The County's 2017 and 2016 budgets included no real estate tax increases. County operations exceeded budget expectations during 2017, and we expect that trend to continue through 2018, due to a philosophy of budgeting conservatively.

Beginning in 2013, the Commissioners developed innovative new Economic Development programs, the Community Reinvest program and the SBA Loan Fee Waiver program, with the intent of bringing new life sustaining jobs to the County and retaining jobs that already exist within the County. These programs have been successful in creating jobs to complete projects funded by the Community Reinvest program, and creating and expanding small businesses within the County through the SBA Loan Fee Waiver program. As of December 31, 2017, $1,118,968 of the funds dedicated to the Commissioners' Economic Development programs remain unspent, and those funds are classified in the accompanying financial statements as "Fund Balance-Assigned".

The Commissioners have also continued their commitment to allocate substantial funds for the upgrade and replacement of the aging County infrastructure. The Commissioners have appropriated, as they have since 2012, $1,250,000 from the 2017 Operating Budget to fund this initiative. Through this initiative, the Commissioners are repairing roads and repairing and replacing bridges in order to continue enhancing the quality of life for residents of the County. While there were no funds allocated in the County's 2018 budget to continue this program of Infrastructure Improvements, the County closed on a $15 million bank note in August of 2018, with $2,750,000 allocated to Infrastructure projects.

The County plans to continue to pursue new and innovative programs to further the Commissioners' vision for enhancing the economic climate of the County. To further these initiatives, the County will continue to allocate funds in the annual budget while continuing to monitor expenditures and search for new revenue streams to enhance the County's financial operations.

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.

	Governmental Activities	Component Units
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 31,636,066	$ 12,457,720
Restricted cash	-	2,055,063
Investments	1,392,537	5,096,317
Restricted investments	-	1,593,536
Accounts receivable, net	5,067,654	138,532,665
Inventory	27,820	-
Due from fiduciary funds	3,186,556	-
Due from other governments, net	11,152,692	7,947,752
Due from component units	5,652,168	-
Taxes receivable, net	9,661,276	348,597
Prepaid expenses	358,972	697,715
Total current assets	68,135,741	168,729,365
Capital Assets, Net	122,447,033	129,571,298
Cash Held for Capital Projects	3,513,701	-
Other Noncurrent Assets	-	565,173
Total assets	194,096,475	298,865,836
Deferred Outflows of Resources - Pension	10,119,217	546,595
Total assets and deferred outflows of resources	$ 204,215,692	$ 299,412,431
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)		
Current Liabilities		
Accounts payable	$ 9,706,200	$ 998,745
Accrued expenses	7,453,258	1,037,480
Current portion:		
Bond and notes payable	9,842,833	2,576,185
Compensated absences	212,432	546,740
Due to other governments	335,967	-
Due to primary government	-	4,024,072
Escrow liability	-	9,437,858
Claims payable	1,577,331	-
Other liabilities	-	8,796
Total current liabilities	30,179,452	21,215,018
Noncurrent Liabilities		
Bonds and notes payable, net	203,436,912	37,272,016
Nonrecourse debt issues	-	135,358,875
Net pension liability	58,842,867	2,088,018
Investment derivatives	6,516,185	502,571
Compensated absences	3,216,346	810,216
Total liabilities	302,191,762	197,246,714
Deferred Inflows of Resources		
Pension	1,464,661	-
Unearned contribution revenue	327,971	-
Deferred service concession arrangement receipts	-	550,000
Total deferred inflows of resources	1,792,632	550,000
Net Position (Deficit)		
Net investment in capital assets	(68,881,022)	85,874,047
Restricted	3,847,035	668,001
Unrestricted	(34,734,715)	15,073,669
Total net position (deficit)	(99,768,702)	101,615,717
Total liabilities, deferred inflows of resources and net position	$ 204,215,692	$ 299,412,431

See notes to financial statements

County Of Lackawanna, Pennsylvania
Statement of Activities
Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Component Units
Primary Government						
Governmental activities:						
General government - administrative	$ (29,834,994)	$ 8,224,014	$ 79,390	$ 306,907	$ (21,224,683)	
General government - judicial	(25,365,801)	6,745,909	1,853,009	-	(16,766,883)	
Public safety - corrections	(39,458,220)	14,109,343	2,059,225	-	(23,289,652)	
Public works and enterprises	(3,871,326)	8,008	1,024,084	-	(2,839,234)	
Health and human services	(50,961,777)	204,784	49,874,977	240,627	(641,389)	
Culture and recreation	(6,495,463)	4,195,154	-	-	(2,300,309)	
Community and economic development	(3,865,387)	561,862	1,906,582	3,885,869	2,488,926	
Unallocated depreciation	(5,725,549)	-	-	-	(5,725,549)	
Interest on long-term debt	(13,188,158)	-	-	-	(13,188,158)	
Total governmental activities	$ (178,766,675)	$ 34,049,074	$ 56,797,267	$ 4,433,403	(83,486,931)	
Component Units						
Scranton Lackawanna Health and Welfare Authority	$ (22,018,355)	$ 58,390	$ -	$ -		$ (21,959,965)
Lackawanna County Library System	(5,494,794)	65,000	1,018,645	-		(4,411,149)
Redevelopment Authority of Lackawanna County	(121,962)	-	100,000	-		(21,962)
Lackawanna River Basin Sewer Authority	(8,943,030)	8,508,703	-	-		(434,327)
County of Lackawanna Transit System Authority	(13,976,311)	1,165,862	10,329,582	1,059,801		(1,421,066)
Multi-Purpose Stadium Authority of Lackawanna County	(2,776,670)	-	2,295,329	-		(481,341)
Lackawanna County Performing Arts Center Authority	(590,072)	668,797	-	-		78,725
County of Lackawanna Land Bank	(26,842)	39,790	-	-		12,948
Total component units	$ (53,948,036)	$ 10,506,542	$ 13,743,556	$ 1,059,801		$ (28,638,137)
General Revenues (Expenses)						
Taxes levied for general and debt purposes, net					80,095,547	$ 4,281,097
Rental income					-	17,727,090
Interest income					303,678	339,546
Contributions and other revenue					296,187	6,076,756
Miscellaneous					(2,161,403)	-
Change in fair value of investment derivative					612,177	-
Total general revenues					79,146,186	28,424,489
Change in net (deficit) position					(4,340,745)	(213,648)
Net (Deficit) Position, Beginning					(95,427,957)	101,829,365
Net (Deficit) Position, Ending					$ (99,768,702)	$ 101,615,717

See notes to financial statements

County of Lackawanna, Pennsylvania

Balance Sheet
Governmental Funds
December 31, 2017

	General Fund	Health and Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Assets						
Cash and cash equivalents	$ 18,994,239	$ 1,702,980	$ 4,524,397	$ 3,665,871	$ 6,262,279	$ 35,149,766
Inventory	27,820	-	-	-	-	27,820
Due from other funds	5,618,303	211,010	-	101,356	37,602	5,968,271
Due from component units	2,077,168	-	-	-	-	2,077,168
Other receivables	2,139,278	-	596,010	-	2,332,366	5,067,654
Due from other governments, net	7,694,735	619,166	2,185,103	150,000	503,688	11,152,692
Prepaid expenses	194,199	-	-	-	460	194,659
Taxes receivable, net	9,661,276	-	-	-	-	9,661,276
Total	$ 46,407,018	$ 2,533,156	$ 7,305,510	$ 3,917,227	$ 9,136,395	$ 69,299,306
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)						
Liabilities						
Accounts payable	$ 4,799,090	$ 1,943,211	$ 2,500	$ 868,633	$ 2,092,766	$ 9,706,200
Accrued liabilities	3,120,573	42,418	-	-	65,555	3,228,546
Accrued pension	3,348,238	-	-	-	-	3,348,238
Due to other funds	193,818	579,499	338,911	169,720	1,499,768	2,781,716
Due to other governments	335,967	-	-	-	-	335,967
Unearned revenue	-	-	-	15,200	1,036,231	1,051,431
Total liabilities	11,797,686	2,565,128	341,411	1,053,553	4,694,320	20,452,098
Deferred Inflows of Resources						
Deferred tax revenue	9,089,959	-	-	-	-	9,089,959
Unearned contribution revenue	-	327,971	-	-	-	327,971
Total deferred inflows of resources	9,089,959	327,971	-	-	-	9,417,930
Fund Balances (Deficit)						
Non-spendable	222,019	-	-	-	460	222,479
Restricted	-	405,104	6,964,099	2,863,674	3,441,931	13,674,808
Assigned	1,118,968	-	-	-	1,062,314	2,181,282
Unassigned	24,178,386	(765,047)	-	-	(62,630)	23,350,709
Total fund balances	25,519,373	(359,943)	6,964,099	2,863,674	4,442,075	39,429,278
Total	$ 46,407,018	$ 2,533,156	$ 7,305,510	$ 3,917,227	$ 9,136,395	$ 69,299,306

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, 2017

Total Fund Balances - Governmental Funds		$ 39,429,278
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.		(20,481)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		122,447,033
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 reported as unearned revenue in the funds.		9,089,959
Due from component units, consist of bonds and notes payable issued by the County and loaned to component units, are not due in the current period and therefore are not reported as receivables within the funds.		3,575,002
Deferred outflows of resources related to the net pension liability is included in the statement of net position.		10,119,217
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	213,279,745	
Net pension liability	55,494,629	
Compensated absences	3,428,778	
		(272,203,152)
Deferred inflows of resources related to the net pension liability is included in the statement of net position.		(1,464,661)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(6,516,185)
Accrued litigation claims (included in accrued expenses).		(1,890,000)
Accrued interest payable is included in the statement of net position (included in accrued expenses).		(2,334,712)
Total Deficit - Governmental Activities		$ (99,768,702)

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds
Year Ended December 31, 2017

	Major Funds					
	General Fund	Health and Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Revenues						
Taxes	$ 63,022,118	$ -	$ 16,382,570	$ -	$ 1,363,972	$ 80,768,660
Payments in lieu of taxes	252,699	-	-	-	-	252,699
Intergovernmental	17,107,297	33,847,299	-	4,192,776	6,183,106	61,330,478
Charges for service	24,086,998	35,778	1,009,518	-	8,159,569	33,291,863
Court costs, fines and forfeitures	27,920	-	-	-	-	27,920
Interest and rent	209,691	12,752	55,086	6,397	6,467	290,393
Contributions and other	1,155,189	-	-	62,776	566,983	1,784,948
Total revenues	105,861,912	33,895,829	17,447,174	4,261,949	16,280,097	177,746,961
Expenditures						
Current:						
General government- administrative	24,578,163	455,224	24,750	-	246,645	25,304,782
General government - judicial	22,443,859	-	-	-	2,916,058	25,359,917
Public safety and corrections	34,702,637	-	-	-	5,401,475	40,104,112
Public works and enterprises	126,906	-	-	-	1,195,192	1,322,098
Health and human services	16,103,013	33,843,492	-	-	207,559	50,154,064
Culture and recreation	2,626,878	-	-	-	3,869,016	6,495,894
Community and economic development	788,728	-	-	-	3,446,181	4,234,909
Miscellaneous expenses	715,531	-	-	-	50,643	766,174
Debt service:						
Principal	-	-	9,821,379	-	-	9,821,379
Interest	-	-	9,655,203	-	-	9,655,203
Long-term debt issuance costs	-	-	954,028	-	-	954,028
Capital outlay	-	-	-	6,455,236	-	6,455,236
Total expenditures	102,085,715	34,298,716	20,455,360	6,455,236	17,332,769	180,627,796
Excess (Deficiency) of Revenues Over Expenditures	3,776,197	(402,887)	(3,008,186)	(2,193,287)	(1,052,672)	(2,880,835)
Other Financing Sources (Uses)						
Proceeds from issuance of long-term debt	-	-	60,828,550	-	-	60,828,550
Current refunding payment to note trustee	-	-	(58,760,135)	-	-	(58,760,135)
Transfers in	591,494	112,812	-	2,371,887	1,439,625	4,515,818
Transfers out	(3,790,725)	-	(1,121,887)	(591,494)	-	(5,504,106)
Total other financing sources (uses)	(3,199,231)	112,812	946,528	1,780,393	1,439,625	1,080,127
Net change in fund balances	576,966	(290,075)	(2,061,658)	(412,894)	386,953	(1,800,708)
Fund Balances, Beginning	24,942,407	(69,868)	9,025,757	3,276,568	4,055,122	41,229,986
Fund Balances, Ending	$ 25,519,373	$ (359,943)	$ 6,964,099	$ 2,863,674	$ 4,442,075	$ 39,429,278

See notes to financial statements

Reconciliation of the Statement of Revenues, Expenditures and
Change in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2017

Total Net Change in Fund Balances - Governmental Funds	$ (1,800,708)
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.	204,700
Capital outlay expenditures are capitalized in the statement of activities.	5,245,041
Depreciation expense on capital assets is reported in the statement of activities.	(5,725,549)
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.	(673,113)
Revenues received in the current year related to long-term receivables is recognized within the statement of revenues, expenditures and changes in fund balance, but was previously recognized as revenue in the statement of activities.	(3,318,708)
Proceeds from the issuance of bonds payable are considered current financial resources and are reported in the funds as revenue, but not the statement of activities.	(59,611,887)
Repayment of bonds payable and capital lease obligations uses current financial resources and are reported in the funds as expenditures, but not the statement of activities.	63,889,295
Amortization of premiums and deferred refunding charges.	(322,745)
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.	612,177
In the statement of activities, certain operating expenses - pension, are measured by the amounts contributed towards future retirement during the current year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the change in the net pension liability, deferred outflows of resources, and deferred inflows of resources during the current period.	(9,485,189)
Change in accrued litigation claims	5,500,000
Change in accrued interest on bonds payable.	1,219,374
Change in compensated absences.	(73,433)
Change in Net Position of Governmental Activities	$ (4,340,745)

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Net Deficit - Proprietary Fund
December 31, 2017

	Internal Service Fund
Assets	
Current Assets	
Investments	$ 1,392,537
Prepaid expenses	164,313
Total	$ 1,556,850
Liabilities and Net Deficit	
Current Liabilities	
Claims payable	$ 1,577,331
Net Deficit	
Unrestricted	(20,481)
Total	$ 1,556,850

See notes to financial statements

	Internal Service Fund
Operating Revenues	
Charges for services	$ 52,346
Operating Expenses	
Workers' compensation claims	767,571
Administrative	88,289
Total operating expenses	855,860
Operating loss	(803,514)
Nonoperating Revenues (Expenses)	
Unrealized loss on investments	(9,155)
Interest income	29,080
Transfer in	988,289
Total nonoperating revenues, net	1,008,214
Net income	204,700
Net Deficit, Beginning	(225,181)
Net Deficit, Ending	$ (20,481)

County of Lackawanna, Pennsylvania

Statement of Cash Flows - Proprietary Fund
December 31, 2017

	Internal Service Fund
Cash Flows from Operating Activities	
Cash received from users	$ 52,346
Cash payments for goods and services	(262,615)
Cash payments for insurance claims	(725,674)
Net cash used in operating activities	(935,943)
Cash Flows Provided by Non-Capital Financing	
Transfers in from General Fund	988,289
Cash Flows from Investing Activities	
Purchases of investments	(72,271)
Interest income	29,080
Unrealized loss on investments	(9,155)
Net cash used in investing activities	(52,346)
Net change in cash	-
Cash, Beginning	-
Cash, Ending	$ -
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (803,514)
Adjustments to reconcile operating income to net cash used in operating activities:	
Prepaid expenses	(174,326)
Claims payable	41,897
Net cash used in operating activities	$ (935,943)

See notes to financial statements

Statement of Fiduciary Net Position
December 31, 2017

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	$ 1,016,927	$ 5,468,438	$ 6,485,365
Accrued interest	651,244	-	651,244
Investments, at fair value:			
Federated money market funds	2,847,424	-	2,847,424
Certificates of deposit	5,700,863	-	5,700,863
U.S. government obligations	27,481,693	-	27,481,693
Tax exempt bonds	270,094	-	270,094
Corporate bonds	27,416,093	-	27,416,093
Common stocks	91,102,811	-	91,102,811
Mutual funds	18,738,138	-	18,738,138
Total investments	173,557,116	-	173,557,116
Total assets	$ 175,225,287	$ 5,468,438	$ 180,693,725
Liabilities and Net Position			
Liabilities			
Accrued fees	$ 6,331	$ -	$ 6,331
Escrow liabilities	-	2,398,492	2,398,492
Due to other funds	116,609	3,069,946	3,186,555
Total liabilities	122,940	$ 5,468,438	5,591,378
Net Position			
Restricted for pensions	175,102,347		175,102,347
Total liabilities and net position	$ 175,225,287		$ 180,693,725

See notes to financial statements

Statement of Change in Fiduciary Net Position
Year Ended December 31, 2017

	Pension Trust Fund
Additions	
Contributions:	
Plan members	$ 4,468,203
Investment Income	
Net appreciation in fair value of investments	17,600,195
Interest	1,604,490
Dividends	1,819,464
Investment expense	(49,559)
Net investment income	20,974,590
Total additions	25,442,793
Deductions	
Benefits paid	10,072,621
Participant contributions refunded	509,670
Administrative expenses	464,495
Total deductions	11,046,786
Increase in net position	14,396,007
Net Position, Beginning	160,706,340
Net Position, Ending	$ 175,102,347

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Balance Sheet - Discretely Presented Component Units
December 31, 2017

	Scranton Lackawanna Health and Welfare Authority	Lackawanna County Library System	Redevelopment Authority of Lackawanna County	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	County of Lackawanna Land Bank	Totals
Current Assets									
Cash and cash equivalents	$ -	$ 269,414	$ 53,336	$ 5,934,978	$ 1,322,573	$ 4,410,912	$ 414,744	$ 51,763	$ 12,457,720
Restricted cash	18,967	-	-	-	2,036,096	-	-	-	2,055,063
Investments	-	-	-	5,024,934	71,383	-	-	-	5,096,317
Restricted investments	1,472,235	-	-	121,301	-	-	-	-	1,593,536
Due from other governments	7,947,752	-	-	-	-	-	-	-	7,947,752
Other receivables	135,358,875	90,633	-	928,785	1,413,139	191,233	550,000	-	138,532,665
Taxes receivable, net	-	348,597	-	-	-	-	-	-	348,597
Other current assets	-	461,475	-	109,138	125,033	2,069	-	-	697,715
Total current assets	144,797,829	1,170,119	53,336	12,119,136	4,968,224	4,604,214	964,744	51,763	168,729,365
Capital Assets Not Being Depreciated	-	50,000	-	2,253,437	33,486	1,850,000	-	-	4,186,923
Capital Assets, Net	-	929,534	-	51,926,000	21,393,091	45,942,486	5,193,264	-	125,384,375
Other Assets	10	-	-	565,163	-	-	-	-	565,173
Total	144,797,839	2,149,653	53,336	66,863,736	26,394,801	52,396,700	6,158,008	51,763	298,865,836
Deferred Outflows of Resources - Pension	-	-	-	-	546,595	-	-	-	546,595
Total assets and deferred outflows of resources	$ 144,797,839	$ 2,149,653	$ 53,336	$ 66,863,736	$ 26,941,396	$ 52,396,700	$ 6,158,008	$ 51,763	$ 299,412,431
Liabilities									
Current liabilities:									
Accounts payable	$ -	$ 321	$ -	$ 292,647	$ 698,277	$ -	$ 7,500	$ -	$ 998,745
Accrued expenses	1,096	-	-	79,202	706,708	207,375	43,099	-	1,037,480
Current portion of long-term debt	-	-	-	1,166,185	-	685,000	675,000	50,000	2,576,185
Current portion of compensated absences	-	-	-	546,740	-	-	-	-	546,740
Due to primary government	-	-	-	-	-	1,688,970	2,335,102	-	4,024,072
Unearned revenue	-	348,597	-	-	2,236,545	-	-	-	2,585,142
Escrow liability	9,437,858	-	-	-	-	-	-	-	9,437,858
Other liabilities	-	-	-	-	-	8,796	-	-	8,796
Total current liabilities	9,438,954	348,918	-	2,084,774	3,641,530	2,590,141	3,060,701	50,000	21,215,018
Investment Derivative, Pay Fixed/Receive Variable Basis Swap	-	-	-	-	-	502,571	-	-	502,571
Long-Term Debt	-	-	43,357	20,590,940	-	15,540,000	1,097,719	-	37,272,016
Net Pension Liability	-	-	-	-	2,088,018	-	-	-	2,088,018
Compensated Absences	-	69,553	-	175,430	565,233	-	-	-	810,216
Nonrecourse Debt Issues	135,358,875	-	-	-	-	-	-	-	135,358,875
Total liabilities	144,797,829	418,471	43,357	22,851,144	6,294,781	18,632,712	4,158,420	50,000	197,246,714
Deferred Inflows of Resources									
Deferred service concession arrangement receipts	-	-	-	-	-	-	550,000	-	550,000
Net Position									
Net investment in capital assets	-	979,534	-	30,168,875	21,426,577	29,878,516	3,420,545	-	85,874,047
Restricted	-	546,700	-	121,301	-	-	-	-	668,001
Unrestricted	10	204,948	9,979	13,722,416	(779,962)	3,885,472	(1,970,957)	1,763	15,073,669
Total net position	10	1,731,182	9,979	44,012,592	20,646,615	33,763,988	1,449,588	1,763	101,615,717
Total liabilities and deferred inflows of resources	$ 144,797,839	$ 2,149,653	$ 53,336	$ 66,863,736	$ 26,941,396	$ 52,396,700	$ 6,158,008	$ 51,763	$ 299,412,431

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, 2017

	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	County of Lackawanna Land Bank	Totals
Revenues									
Charges for services	$ 58,390	$ 65,000	$ -	$ 8,508,703	$ 1,165,862	$ -	$ 668,797	$ 39,790	$ 10,506,542
Real estate taxes	-	4,205,229	75,868	-	-	-	-	-	4,281,097
Rental income	16,806,741	-	-	-	-	920,349	-	-	17,727,090
Interest income	101,568	8,620	15	92,296	7,014	130,019	-	14	339,546
Operating grants and contributions	-	1,018,645	100,000	-	10,329,582	2,295,329	-	-	13,743,556
Capital grants and contributions	-	-	-	-	1,059,801	-	-	-	1,059,801
Other	5,051,655	82,231	3	757,435	47,247	138,185	-	-	6,076,756
Total revenues	22,018,354	5,379,725	175,886	9,358,434	12,609,506	3,483,882	668,797	39,804	53,734,388
Expenses									
Public works and enterprises	-	5,411,173	-	8,652,422	12,083,106	-	-	-	26,146,701
Culture and recreation	-	83,621	-	-	-	-	-	-	83,621
Operating expenses	60,009	-	119,916	-	-	568,100	69,887	26,842	844,754
Debt service	21,958,346	-	2,046	290,608	-	682,655	140,823	-	23,074,478
Unallocated depreciation and amortization	-	-	-	-	1,893,205	1,525,915	379,362	-	3,798,482
Total expenses	22,018,355	5,494,794	121,962	8,943,030	13,976,311	2,776,670	590,072	26,842	53,948,036
Change in net position	(1)	(115,069)	53,924	415,404	(1,366,805)	707,212	78,725	12,962	(213,648)
Net Position (Deficit), Beginning	11	1,846,251	(43,945)	43,597,188	22,013,420	33,056,776	1,370,863	(11,199)	101,829,365
Net Position (Deficit), Ending	$ 10	$ 1,731,182	$ 9,979	$ 44,012,592	$ 20,646,615	$ 33,763,988	$ 1,449,588	$ 1,763	$ 101,615,717

See notes to financial statements

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 property tax 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.

Under the current financial resources measurement focus, only current financial assets and liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Amounts expended to acquire capital assets are recorded as expenditures in the year the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures are recorded only when payment is due.

Amounts reported as program revenues include charges to citizens, customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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, Emergency 911, Domestic Relations, Probation and Parole, Culture and Recreation, Hotel Rental Tax, and other miscellaneous activities.

The County reports the following proprietary fund:

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

The County reports the following fiduciary funds:

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

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

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 Principles

The County adopted Governmental Accounting Standards Board ("GASB") issued Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The adoption of this statement did not have a material impact on the County's financial statements.

The County adopted GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and, (3) the classification of payments made by employers to satisfy employee contribution. The adoption of this statement did not have a material impact on the County's 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.

Investments of the Pension Trust Fund are stated at fair value for both reporting and actuarial purposes. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are generally reported at cost which is not expected to be materially different from fair value.

The County's investments in its Pension Trust Fund are comprised of a variety of financial instruments and are managed by an external investment advisor. The fair values reported in the statement of fiduciary net position are exposed to various risks, including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Cash Held for Capital Projects

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

Capital Assets

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

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

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

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

	Governmental Activities	Component Units
Infrastructure and airport	20 - 50 years	-
Land improvements	20 years	10 - 39 years
Buildings and improvements	25 years	10 - 40 years
Furniture and equipment	5 - 20 years	5 - 15 years
Collections	-	5 years
Plant and lines	-	25 - 40 years
Vehicles	-	5 - 12 years
Service concession arrangements	-	10 years

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, employees subject to certain unions are allowed to accumulate vacation days.

Derivative Financial Instruments

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 Position with the periodic change in fair value reported as a gain/loss in the Statement of Activities.

The County has also entered into a future variable-to-fixed cash swap, which is considered an investment derivative instrument, related to its future issuance of its General Obligation Notes, Series A of 2019. The fair value of the derivative is recorded as a liability within the Statement of Net Position with the periodic change in fair value reported as a gain/loss in the Statement of Activities.

Deferred Outflows/Inflows of Resources

In addition to assets, the County reports a separate section for deferred outflows (inflows) of resources. This separate financial statement element represents a consumption (acquisition) of net position that applies to a future period and so will not be recognized as an outflow (inflow) of resources until that time.

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

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. Such non-spendable items include inventory and prepaid expenses.

- *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. Such restricted items include amounts restricted for debt service, certain grant programs, and capital projects.

- *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 Chief Financial Officer to assign funds to specific purposes. The County has assigned funds for future infrastructure projects.

- *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,* the County has evaluated all related entities (authorities, commissions, and affiliates) for 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. 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 Redevelopment Authority of Lackawanna County ("RALC") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the RALC.

- The Lackawanna River Basin Sewer Authority ("LRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LRBSA.

- 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, 2017.

- 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 $1,700,000. In addition, the County has guaranteed the outstanding debt of MPSA for the entire term of the outstanding agreements and secured the debt with a portion of future hotel tax collections. Apart from the Hotel Room Rental collections, which the County assigned to MPSA for repayment of debt service, the MPSA has met each of its periodic debt service payment requirements.

- The Lackawanna County Performing Arts Center Authority ("LCPACA") operates a performing arts amphitheater. The County Commissioners appoint the governing board of the LCPACA. The County has agreed to fund any deficits of the LCPACA. The County refinanced certain of the LCPACA's long-term debt outstanding and loaned the proceeds of the County's issuance to the LCPACA. At December 31, 2017 approximately $2,335,000 was due and payable from LCPACA to the County.

- The Lackawanna County Land Bank is a public authority created to efficiently acquire, hold, manage and develop foreclosed property, as well as other vacant and abandoned properties, for the purpose of returning such properties to the County's active tax role. The County Commissioners appoint the governing board of the Land Bank.

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 include:

- 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 Lackawanna County Commissioners and two members of the Luzerne County Council and the Luzerne County Manager serving as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2017, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately $4,713,000 in its capital assets at December 31, 2017.

- 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.

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 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 formal policy for custodial credit risk. At December 31, 2017, the bank balance of the County's deposits with financial institutions, including cash equivalents, was $40,650,792 compared to the carrying amount of $41,635,132. The difference is caused by items in-transit and outstanding checks. $1,767,296 of the County's deposits were covered by federal depository insurance, $2,030,819 of the County's deposits were uninsured and collateralized by specific securities pledged in the County's name by the financial institution and $24,293,974 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, $12,558,703 was exposed to custodial credit risk and was uninsured and not otherwise collateralized.

PLGIT is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of $1 per share. Participants purchase "shares" in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Depository Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provide by law is pledged by the depository. Shares may be withdrawn at any time in any amount, with no liquidity fees or redemption gates. PLGIT/PLGIT PLUS have received an "AAm" rating from Standard and Poor's, an independent credit rating agency. The County considers its deposits with PLGIT to be cash equivalents for financial reporting purposes. At December 31, 2017, the carrying amount and the bank balance of the County's deposits with PLGIT was $11,792,925.

The Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits, ("INVEST") is a program of two investment pools designed specifically for local government and nonprofit groups. INVEST functions similarly to a money market fund, seeking to maintain a net asset value of $1 per share. Participants purchase "shares" in INVEST, which invests the proceeds in: obligations of the United States Government; repurchase agreements with bank and non-bank financial institutions and other debt instruments of banks, financial institutions, and non-financial institutions authorized for the shareholder by Commonwealth of Pennsylvania Statute (this would include certificates of deposit and money market funds). Deposits held by INVEST are not insured by the Federal Depository Insurance Corporation; however, deposits are collateralized with securities held by the pledging institution, but not in the County's name. Shares may be withdrawn at any time, with no liquidity fees or redemption gates. INVEST has received an "AAAm" rating from Standard and Poor's, an independent credit rating agency. The County considers its deposits with INVEST to be cash equivalents for financial reporting purposes. At December 31, 2017, the carrying amount and the bank balance of the County's deposits with INVEST was $1,015,778.

Investments

As of December 31, 2017, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

Governmental Activities	Maturities	Fair Value
Internal Service Fund:		
U.S. government agency	3 - 19 years	$ 1,382,571
Money market funds	N/A	9,966
Total		$ 1,392,537

Pension Trust Fund	Maturities	Fair Value
Common stock	N/A	$ 91,102,811
Corporate and tax-exempt bonds	1 - 30 years	27,686,187
U.S. government obligations	6 - 30 years	27,481,693
Mutual funds	N/A	18,738,138
Certificates of deposit	N/A	5,700,863
Money market	N/A	2,847,424
Total		$ 173,557,116

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, 2017, 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 Activities had the following credit risk at December 31, 2017:

Investment	S&P Rating	%
U.S. government obligations	AA+	100.00 %

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2017:

Investment	S&P Rating	%
U.S. government obligations	AA+	50.1 %
Corporate bonds	AAA	16.4
Corporate bonds	AA	5.2
Corporate bonds	AA+	0.6
Corporate bonds	AA-	3.0
Corporate bonds	A	4.5
Corporate bonds	A+	7.3
Corporate bonds	A-	6.6
Corporate bonds	BBB	1.3
Corporate bonds	BBB+	3.1
Corporate bonds	BBB-	1.9
Total		100.00 %

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not recover the value of its investments or collateral securities that are in the possession of an outside party. All investments of the Pension Trust Fund are held in trust at Community Bank, N.A. at December 31, 2017.

Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. This hierarchy is based on the valuation inputs used to measure the fair value of the assets. The three levels of the fair value hierarchy are:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, directly or indirectly, for substantially the full-term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured, on a recurring basis, at fair value as of December 31, 2017:

	Total	Level 1	Level 2	Level 3
Governmental activities:				
U.S. government agency	$ 1,382,571	$ -	$ 1,382,571	$ -
Money market	9,966	9,966	-	-
Total governmental activities	1,392,537	9,966	1,382,571	-
Pension trust fund:				
Money market funds	2,847,424	2,847,424	-	-
Certificates of deposit	5,700,863	5,700,863	-	-
U.S. government obligations	27,481,693	9,452,447	18,029,246	-
Corporate bonds	27,416,093	-	27,416,093	-
Tax exempt bonds	270,094	-	270,094	-
International mutual funds	18,738,138	18,738,138	-	-
Common stock:				
Consumer discretionary	10,972,387	10,972,387	-	-
Consumer staples	4,019,629	4,019,629	-	-
Energy	7,195,584	7,195,584	-	-
Financials	13,102,140	13,102,140	-	-
Healthcare	11,291,011	11,291,011	-	-
Industrials	13,834,178	13,834,178	-	-
Information technology	26,722,472	26,722,472	-	-
Other	3,965,410	3,965,410	-	-
Total pension trust fund	173,557,116	127,841,683	45,715,433	-
Total investments	$ 174,949,653	$ 127,851,649	$ 47,098,004	$ -
Investment derivatives (liability)	$ (6,516,185)	$ -	$ -	$ (6,516,185)

Money market funds, certificates of deposit, common stocks, mutual funds, and U.S. government obligations classified in Level 1 of the hierarchy are valued using prices quoted in active markets for those securities. U.S. government obligations, corporate bonds, and tax-exempt bonds classified in Level 2 of the hierarchy are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Derivative instruments classified in Level 3 of the hierarchy are valued using a valuation model based on current and expected market interest rates. (Note 9).

4. Due from Other Governments

The amounts reported in the County's various governmental funds at December 31, 2017 as due from other governments is summarized below:

	Federal	State	Local	Total
General fund	$ 534,758	$ 6,979,384	$ 180,593	$ 7,694,735
Health and human services fund	-	619,166	-	619,166
Debt service fund	-	-	2,185,103	2,185,103
Capital projects fund	-	-	150,000	150,000
Non-major funds	-	-	503,688	503,688
Total	$ 534,758	$ 7,598,550	$ 3,019,384	$ 11,152,692

Amounts due from the federal and state government are primarily federal and Commonwealth of Pennsylvania grant awards receivable at December 31, 2017. The amount due from local governments represents various receivables from other units of local government.

5. Real Estate Taxes

The total tax on real estate in 2017 was 57.42 mills ($.05742 per $1,000 of assessed valuation). Of this amount, 53.6 mills were levied for general and debt service purposes, 2.820 mills were levied for library services in the County and 11.00 mills were 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, 2017 were approximately $25,543,134. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately $15,881,858.

6. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2017, was as follows:

	January 1, 2017	Acquisitions	Disposals	Transfer	December 31, 2017
Capital assets not being depreciated:					
Land	$ 3,533,235	$ -	$ -	$ -	$ 3,533,235
Construction-in-progress	3,678,529	2,109,481	-	(397,652)	5,390,358
Total capital assets, not being depreciated	7,211,764	2,109,481	-	(397,652)	8,923,593
Capital assets being depreciated:					
Buildings and improvements	122,751,467	366,893	-	-	123,118,360
Machinery and equipment	46,014,412	1,722,655	-	-	47,737,067
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	51,423,131	1,046,012	-	397,652	52,866,795
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	230,339,902	3,135,560	-	397,652	233,873,114
Less accumulated depreciation for:					
Buildings and improvements	(39,917,292)	(2,955,124)	-	-	(42,872,416)
Machinery and equipment	(38,774,392)	(1,911,273)	-	-	(40,685,665)
Equipment under capital lease	(1,066,972)	(94,888)	-	-	(1,161,860)
Infrastructure	(31,012,487)	(603,038)	-	-	(31,615,525)
Investment in Airport	(3,852,982)	(161,226)	-	-	(4,014,208)
Total accumulated depreciation	(114,624,125)	(5,725,549)	-	-	(120,349,674)
Net capital assets being depreciated	115,715,777	(2,589,989)	-	397,652	113,523,440
Governmental activities capital assets, net	$ 122,927,541	$ (480,508)	$ -	$ -	$ 122,447,033

Capital asset balances for discretely presented component units at December 31, 2017, were as follows:

	Lackawanna County Library System	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	Total
Capital assets not being depreciated:						
Land	$ 50,000	$ 518,017	$ 33,486	$ 1,850,000	$ -	$ 2,451,503
Construction in process	-	1,735,420	-	-	-	1,735,420
Total capital assets, not being depreciated	50,000	2,253,437	33,486	1,850,000	-	4,186,923
Capital assets being depreciated:						
Infrastructure	-	72,999,172	-	-	-	72,999,172
Buildings and improvements	1,760,122	-	18,839,684	52,675,558	7,641,018	80,916,382
Collections	667,280	-	-	-	-	667,280
Equipment and furnishings	73,365	1,943,005	2,893,184	3,944,763	1,186,885	10,041,202
Land improvements	-	52,245	-	-	3,468,796	3,521,041
Vehicles	-	305,843	21,343,994	-	-	21,649,837
Service concession assets	-	-	-	-	224,107	224,107
Less: Accumulated depreciation	(1,571,233)	(23,374,265)	(21,683,771)	(10,677,835)	(7,327,542)	(64,634,646)
Net capital assets being depreciated	929,534	51,926,000	21,393,091	45,942,486	5,193,264	125,384,375
Capital assets, net	$ 979,534	$ 54,179,437	$ 21,426,577	$ 47,792,486	$ 5,193,264	$ 129,571,298

7. Long-Term Obligations

Description	January 1, 2017	Additions	Payments/ Refunding	December 31, 2017	Current Portion
A. GO Bonds, Series B of 2007	$ 17,725,000	$ -	$ (17,725,000)	$ -	$ -
B. GO Notes, Series D of 2008	9,367,713	-	(1,262,173)	8,105,540	1,171,772
C. GO Bonds, Series A of 2009	7,280,000	-	(15,000)	7,265,000	15,000
D. GO Notes, Series B of 2009	26,455,000	-	(10,000)	26,445,000	5,000
E. GO Notes, Series A of 2010	1,343,000	-	(420,000)	923,000	452,000
F. GO Bonds, Series B of 2010	58,240,000	-	(36,475,000)	21,765,000	50,000
G. GO Notes, Series of 2011	11,740,000	-	(2,131,000)	9,609,000	2,234,000
H. GO Notes, Series A of 2013	1,934,669	-	(274,615)	1,660,054	282,411
I. GO Notes, Series of 2014	1,959,000	-	(640,000)	1,319,000	653,000
J. GO Notes, Series A of 2014	1,961,638	-	(106,938)	1,854,700	112,023
K. GO Notes, Series B of 2014	4,903,908	-	(298,569)	4,605,339	307,745
L. GO Note, Series of 2015	6,061,000	-	(1,176,000)	4,885,000	1,206,000
M. GO Note, Series A of 2016	44,625,000	-	(430,000)	44,195,000	385,000
N. GO Note, Series B of 2016	25,155,000	-	(1,935,000)	23,220,000	2,915,000
O. GO Note, Series C of 2016	97,450	1,121,887	-	1,219,337	48,882
P. GO Bond, Series A of 2017	-	58,490,000	(990,000)	57,500,000	5,000
Total	218,848,378	59,611,887	(63,889,295)	214,570,970	9,842,833
Bond premiums, discounts and deferred refunding	(1,613,970)	(2,092,307)	2,415,052	(1,291,225)	-
	$ 217,234,408	$ 57,519,580	$ (61,474,243)	$ 213,279,745	$ 9,842,833

Governmental Activities

A. 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 through the County's issuance of its General Obligation Notes, Series B of 2009. During 2017, the County advance refunded the remaining outstanding bonds through the issuance of its General Obligation Bonds, Series A of 2017.

B. During 2008, the County issued $13,858,652 (Series D of 2008) of zero coupon General Obligation Notes (capital appreciation notes). The proceeds of the Series D notes 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 notes are due in varying installments that yield to maturity at rates ranging from 6.64% to 7.50% with final maturity scheduled for July 2023.

C. 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.

D. 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.

E. 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% per annum, 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 $316,218 in principal during 2017, on its share of this obligation. Principal due in 2018 on the County's share of this borrowing is $103,783. 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, 2017, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 15.

F. 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 3.15% 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 and B General Obligation Bonds and paid approximately $10,183,000 upon termination from the proceeds of its Series B of 2010 General Obligation Bonds. These bonds were partially advance refunded in May 2017 through the County's issuance of its General Obligation Bonds, Series A of 2017.

   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.

G. 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.

H. During 2013, the County issued $2,834,108 of General Obligation Notes (Series A of 2013) to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 2.84% for three years and then adjusting to 70% of prime rate with a floor of 2.84% and a ceiling of 5.50% with final maturity scheduled for July 2023.

I. During 2014, the County issued $2,587,000 of General Obligation Notes (Series of 2014). The proceeds of the notes were used to currently refund the County's Series C of 2004 General Obligation Bonds. The notes are due in varying installments of principal and interest at a fixed-rate of 1.93%, with principal payments beginning in October 2015, with final maturity scheduled for October 2019.

J. During 2014, the County issued $2,172,492 of taxable General Obligation Notes (Series A of 2014). The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 4.70% with final maturity scheduled for May 2030.

K. During 2014, the County issued $5,492,941 of General Obligation Notes (Series B of 2014). The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 3.05% with final maturity scheduled for May 2030.

L. During 2015, the County issued $7,891,000 Taxable General Obligation Note (Series of 2015). The proceeds of this were used to currently refund the County’s outstanding General Obligation Note, Series A of 2012; currently refund the County’s outstanding General Obligation Note, Series B of 2012; and pay the costs and expense of issuance of the Note. The Note is due in varying semi-annual installments of principal and interest at a fixed-rate of 2.290% with final maturity scheduled for October 2020.

M. During 2016, the County issued $44,655,000 of General Obligation Bonds (Series A of 2016) to currently refund the County's outstanding General Obligation Notes, Series A of 2008 and pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual installments of principal and interest at rates ranging from 2.50% to 5.00%, with final maturity scheduled for September 2033.

N. During 2016, the County issued $25,160,000 of General Obligation Bonds (Series B of 2016) to: advance refund the County's outstanding General Obligation Bonds, Series A of 2007; advance refund the County's outstanding General Obligation Bonds, Series E of 2008; and, pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual payments of principal and interest at rates ranging from 2.50% to 5.00%, with final maturity scheduled for September 2029.

O. During 2016, the County issued $17,000,000 of General Obligation Note, Series of 2016. The proceeds of the note are to be used to finance the acquisition, planning, design, construction, renovation, furnishing and equipping of new facilities of the County consisting of the property formerly known as the Globe Store to be used for County governmental offices and to pay the costs and expense of issuance of the note. The note is due in varying monthly installments of principal and interest at rates ranging from 2.750% to 3.750%, with final maturity scheduled for 2041. The note is a multiple advance draw note allowing for the County to draw funds when and as needed for the project. At December 31, 2017, the County had drawn $1,219,337 on this note.

P. During 2017, the County issued $58,490,000 of General Obligation Bonds, Series of 2017. The proceeds of the Bonds were used to currently refund the County's outstanding General Obligation Bonds, Series B of 2007; advance refund the County's outstanding General Obligation Bonds, Series B of 2010; and, pay the costs and expenses of issuing the bonds. The bonds are due in varying annual installments of principal and interest at rates ranging from 2.00% to 5.00%, with final maturity scheduled for September 2035. This refunding reduced the County's total debt service payments over the next 19 years by approximately $5,400,000, resulting in a net economic gain of approximately $4,970,000.

Effective July 1, 2017, the County entered into a basis rate swap agreement modifying the interest rate payments associated with the County's 2017 Series A 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 the first day of each month 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") less 0.02457% payable to the County on the first of each month through final maturity. The Swap Notional amount amortizes through termination as the 2017 A Bonds amortize.

During 2017, the County entered into an advance interest swap agreement effective August 1, 2019, which will modify the interest rate payments associated with the County's 2009 Series B General Obligation Notes. The agreement terminates on September 15, 2034. The effect of the agreement requires the County to pay a fixed rate equal to 2.238% payable each March 15 and September 15 through final maturity. Pursuant to this agreement, the County receives a variable rate equal to the 3-month SIFMA Index on the notional amount of $27,915,000, payable to the County each March 15 and September 15 through final maturity.

Interest paid on these bonds and notes during the year ended December 31, 2017 amounted to $9,655,203, including swap related interest payments amounting to approximately $335,000.

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 9), as of December 31, 2017. As rates vary, net interest rate swap payments will vary.

Year Ended December 31	Principal	Interest	Total
2018	$ 9,842,833	$ 9,740,499	$ 19,583,332
2019	10,536,246	9,538,656	20,074,902
2020	10,207,529	9,765,583	19,973,112
2021	7,934,196	10,950,137	18,884,333
2022	8,688,357	9,498,727	18,187,084
2023-2027	59,419,668	30,166,371	89,586,039
2028-2032	67,802,141	17,212,408	85,014,549
2033-2037	40,140,000	3,183,100	43,323,100
Total	$ 214,570,970	$ 100,055,481	$ 314,626,451

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, 2017, the amount of defeased bonds outstanding was $60,690,000.

At December 31, 2017, the following bonds outstanding had been defeased by the County:

Series	Final Maturity	Outstanding Principal at December 31, 2017
General Obligation Bonds, Series A of 1999	2022	$ 4,450,000
General Obligation Bonds, Series B of 2007	2022	5,000,000
General Obligation Bonds, Series E of 2008	2022	8,165,000
General Obligation Notes, Series C of 2008	2029	6,700,000
General Obligation Bonds, Series B of 2010	2035	36,375,000
Total		$ 60,690,000

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2017:

		Amount
Lackawanna County Redevelopment Authority		
Term note, due in varying installments plus interest at 4.25%, maturing 2022.	$	43,357
Lackawanna River Basin Sewer Authority		
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. Amortization of this loan commenced in May 2012.		916,730
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. Amortization of this loan commenced in May 2013.		19,814,907
PENNVEST note, that bears interest at 1.000% for years 1 to 5 and 1.743% for subsequent years; the loan is interest only for a maximum of 3 years; and is a multiple advance loan that matures over a maximum of 240 months. Amortization is anticipated to commence in 2018.		1,025,488
Total Lackawanna River Basin Sewer Authority		21,757,125
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 2019. Reported net of unamortized discount of $2,281.		710,000
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.		1,065,000
Total Lackawanna County Performing Arts Center Authority		1,775,000
Multi-Purpose Stadium Authority		
Variable Rate Demand Hotel Room Rental Tax Revenue Bonds, Series of 2013 due in varying installments in July of each year commencing July 2014. Interest payments are due monthly at a variable interest rate equivalent to a Weekly Rate determined for each Weekly Rate Period as calculated by PNC Capital Markets. The rate at December 31, 2017 was 1.73%. Final maturity scheduled for July 2036.		16,225,000
Lackawanna County Land Bank		
Note payable to Lackawanna County Community Development Revolving Loan account, bearing no interest.		50,000
Total Discretely Presented Component Units	$	39,850,482

Scheduled principal maturities of long-term debt of the discretely presented component units are summarized as follows:

Years ending December 31:	
2018	$ 2,576,185
2019	2,587,064
2020	2,323,520
2021	2,008,574
2022	2,100,016
2023 - 2027	11,048,227
2028 - 2032	12,296,240
2033 - 2037	4,675,452
2038	235,204
Total	$ 39,850,482

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, 2017, there was one general obligation bond issue outstanding and nine notes and mortgages outstanding with an aggregate balance of $135,358,875.

8. 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 Amphitheatre for a 10-year term ending December 31, 2021. LCPACA will receive $550,000 annually, in two installment payments, over the term of the agreement. In April 2017, the fourth amendment to the agreement required the operator to pay the Authority an additional yearly rental fee in an amount equal to $1.50 per paid ticket starting with the 2017 concert season. The amount the Authority would receive on each paid ticket would increase $.25 every subsequent year until 2021, which is the final year of the concession agreement. The fourth amendment also gives the Operator the option to opt out of the agreement for the subsequent year if notice is given to the Authority by June 15. Assets continue to be reported in the statement of net position and are depreciated as applicable over their useful lives. Capital asset improvements made to the facility by the Operator are amortized to revenue over the remaining non-cancellable term and recognized as a capital asset depreciated over its useful life.

Deferred inflows of resources reported in the statement of net position as deferred service concession arrangements consisted of unearned revenue $550,000.

9. 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.

The County entered into a future variable-to-fixed interest rate swap transaction effective August 1, 2019, in anticipation of the issuance of its General Obligation Bonds, Series A of 2019.

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.

On November 13, 2017, the County entered into a future variable-to-fixed interest swap transaction with PNC in the initial notional amount of $27,915,000. Under the terms of the swap contract, the County receives a fixed interest equal to 2.238%. Payments will be made semi-annually beginning September 15, 2019 and continue each March and September 15 until swap termination on March 15, 2034.

Fair Value

At December 31, 2017, the Swap had a negative fair value of $6,006,623, which is reported as investment derivative - pay variable / receive variable basis swap in the governmental activities section of the statement of net position. Changes in the fair value are reported as investment income in the governmental activities section of the statement of activities.

At December 31, 2017, the Swap had a negative fair value of $509,562, which is reported as investment derivative - pay variable / receive basis swap in the governmental activities section of the statement of net position. 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, 2016, the County was not exposed to credit risk because the 2010 Swap and 2019 Swap had negative fair values. However, should interest rates change and the fair value of the 2010 Swap and 2019 Swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

The basis swap transactions expose the County to credit (default) risk. Should the County's long-term credit rating be downgraded in the future, this gives the 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 PNC Bank will have the ability to obligate the County to terminate the Swap at the then current market rate.

Interest Rate Risk

The 2010 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 PNC Bank under the terms of the Swap, the County would be obligated to make a periodic net swap payment to the PNC Bank - based on market conditions, the net swap payment due by the County to the PNC Bank could be significant.

The 2019 basis swap transaction exposes the County to interest rate risk. If the percentage of the 3-month SIFMA Index received by the County is lower than the fixed rate the County is paying the PNC Bank under the terms of the Swap, the County would be obligated to make a periodic net swap payment to PNC - based on market conditions, the net swap payment due by the County to PNC 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, 2016, the associated debt used the LIBOR index and the BNC Bank'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 transactions expose 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 PNC Bank to terminate the Swap. Depending on market movements the County could potentially owe the PNC Bank a significant termination payment.

Derivative Financial Instrument - Interest Rate Swap - Component Unit

Objective of the Basis Swap

The MPSA entered into the interest rate swap transaction in connection with the issuance of its debt for the purpose of managing the interest rate payments on the debt.

Terms

During 2013, the MPSA entered into a pay-fixed, receive-variable interest rate swap with PNC Bank on its Variable Rate Demand Hotel Room Rental Tax Bond Revenues, Series of 2013. The agreement terminates on July 1, 2023. The notional value of the Swap at inception was $18,970,000 and was $16,225,000 at December 31, 2017. The MPSA receives a variable rate of interest based on the Weekly Rate of the SIFMA Municipal Swap Index (1.216875%) at December 31, 2017 from PNC Bank and pays a fixed rate of interest of 2.336%. The Swap creates an average synthetic variable interest rate of 1.1191% as of December 31, 2017. No cash was paid or received when the Swap was originated.

Fair Value

At December 31, 2016, the Swap had a negative fair value of $502,571, which is reported as investment derivative - pay fixed / receive variable basis swap in the component units section of the statement of net position. Changes in the fair value are reported as investment income in the component units section of the statement of activities.

Basis Risk

The MPSA’s variable rate interest receipts on its basis swaps are equivalent to the Weekly Rate of the SIFMA Municipal SWAP Index. The MPSA’s net debt service may increase or decrease to the extent that the relationship between the floating index changes over time.

Interest Rate Risk

The Swap increases the MPSA’s exposure to interest rate risk. As the SIFMA Municipal SWAP Index decreases, the MPSA’s net payments on the swap increases.

Termination Risk

The MPSA or PNC Bank may terminate the swaps if the other party fails to perform under the terms of the contract. If, at the time of the termination, the Swaps have a negative fair value, the MPSA would be liable to PNC Bank for that amount.

Credit Risk

As of December 31, 2016, the MPSA was not exposed to credit risk because the 2013 Swap had a negative fair value. However, should interest rates change and the fair value of the 2013 Swap become positive, the MPSA would be exposed to credit risk in the amount of the derivative's fair value.

Rollover Risk

As of December 31, 2016, the MPSA was exposed to rollover risk because the 2013 Swap is scheduled to mature on July 1, 2023, while the hedged debt is scheduled to mature in July 2036.

10. Compensated Absences

The changes in the County's compensated absences in 2017 are summarized as follows:

Balance, January 1, 2017	$ 3,355,345
Increase	2,127,816
Decrease	(2,054,383)
Balance, December 31, 2017	3,428,778
Less current portion	212,432
Long-term compensated absences	$ 3,216,346

The County pays its compensated absences from the General Fund.

11. Pension Plan

Plan Description

The Lackawanna County Retirement Fund (the "Plan") is a single-employer defined benefit pension plan that covers all full-time employees of the County. The Plan provides retirement, disability and death benefits to its members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Lackawanna County Employees' Retirement Board. 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, including required supplementary information required pursuant to GASB Statement Nos. 67 and 68, may be obtained from the County Commissioner's office.

Membership of the Plan consisted of the following at December 31, 2016, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	694
Terminated plan members entitled to but not yet receiving benefits	237
Active plan members	1,039
Total	1,970
Number of participating employers	1

Benefits Provided

Lackawanna County Employees Pension Plan provides retirement, disability, and death benefits. Retirement benefits for plan members are calculated as a percent of the member's highest 3-year average salary times the member's years of service depending on class basis. Plan members with 20 years of service are eligible to retire at age 55. Plan members that have attained age 60 are eligible to retire. All plan members are eligible for disability benefits after 5 years of service if disabled while in service and unable to continue as a county employee. Disability retirement benefits are equal to 25% of highest average salary at time of retirement. Death benefits for a member who dies with 10 years of service prior to retirement is the total present value of member's retirement paid in a lump sum. A plan member who leaves County service with less than 5 years of service may withdraw his or her contributions, plus any accumulated interest.

Funding Policy and Contributions

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 annual required contribution was determined based on the most recent annual actuarial valuation dated December 31, 2016. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually; (b) 4.5% and (c) no postretirement benefit increases. The rate of return and projected salary increases includes an inflation component of 3.0%. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

Deposits and Investments

The Plan allows funds to be invested pursuant to a strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of asset classes, as approved by the Authority Board, and established the following target allocation across asset categories:

Asset Class	Target	Long-term Expected Real Rate of Return
Domestic equity	40 - 60 %	5.4 - 6.4 %
International equity	0 - 20	5.5 - 6.5
Fixed income	30 - 50	1.3 - 3.3
Cash	0 - 10	0.0 - 1.0

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2016 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was (7.93%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The County's December 31, 2017 net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the Plan as of December 31, 2017 were as follows:

Total pension liability	$ 219,549,207
Plan fiduciary net position	160,706,340
Plan net pension liability	$ 58,842,867
Plan fiduciary net position as a percentage of total pension liability	73.20 %

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Pension Fund.

Changes in the Net Pension Liability

The changes in the County's net pension liability during the year ended December 31, 2017 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at January 1, 2016	$ 205,008,393	$ 154,382,409	$ 50,625,984
Changes for the year:			
Service cost	6,268,302	-	6,268,302
Interest cost	15,524,256	-	15,524,256
Changes for experience	2,771,596	-	2,771,596
Changes of assumptions	-	-	-
Contributions, employer	-	600,000	(600,000)
Contributions, member	-	4,198,386	(4,198,386)
Net investment income	-	11,997,784	(11,997,784)
Benefit payments, including refunds	(10,023,340)	(10,023,340)	-
Plan administrative expenses	-	(448,899)	448,899
Net changes	14,540,814	6,323,931	8,216,883
Balances at December 31, 2016	$ 219,549,207	$ 160,706,340	$ 58,842,867

The schedule of changes in the employer's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Plan.

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2016 using the following actuarial methods and assumptions:

Actuarial valuation date	January 1, 2016
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	4.5%
Inflation	3.0%
Interest rate	7.5%
Asset valuation method	Building-Block method

Mortality rates were based on the RP-2013 Annuitant and Non-annuitant Mortality Tables for males and females with no projected improvement. The actuarial assumptions used in the December 31, 2016 valuation were based on past experience under the Plan and reasonable future expectations which represent the actuary's best estimate of anticipated experience under the Plan. An actuarial experience study was performed during 2016; however, no modifications to assumptions were made as a result.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.50%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the actuarially determined contribution rates.

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 7.50% as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1% point lower (6.50%) or 1% point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate	1% Increase (8.5%)
Net pension liability	$ 81,850,148	$ 58,842,867	$ 40,314,699

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended December 31, 2017, the County recognized pension expense of $9,599,809. At December 31, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,169,075	$ 962,240
Net difference between projected and actual earnings on investments	7,950,142	502,421
Total	$ 10,119,217	$ 1,464,661

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	$ 2,926,496
2019	2,926,496
2020	2,926,496
2021	35,441
2022	(160,373)

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	$ 27,820	$ -	$ -	$ -	$ -	$ 27,820
Prepaid expenses	194,199	-	-	-	460	194,659
Total non-spendable	$ 222,019	$ -	$ -	$ -	$ 460	$ 222,479
Restricted for:						
Grant programs	$ -	$ 161,052	$ -	$ -	$ 3,441,931	$ 3,602,983
Debt service	-	-	6,964,099	-	-	6,964,099
Capital projects	-	-	-	2,863,674	-	2,863,674
Total restricted	$	$ 161,052	$ 6,964,099	$ 2,863,674	$ 3,441,931	$ 13,430,756
Assigned for:						
Economic development	$ 1,118,968	$ -	$ -	$ -	$ -	$ 1,118,968
Program purposes	-	-	-	-	1,062,314	1,062,314
Total assigned	$ 1,118,968	$ -	$ -	$ -	$ 1,062,314	$ 2,181,282

13. Deficit Fund Balances

The individual health and human service fund department that has a net deficit balance at December 31, 2017 is the Area Agency on Aging with a deficit of $520,995. Such deficit resulted from the County not funding 100% of the operating deficits of these activities in the current or past years and will be funded in future operating subsidy payments.

The individual non-major funds that have a net deficit balance at December 31, 2017 are the Domestic Relations Fund with a deficit of $21,627 and the Community Development Fund with a deficit of $41,004. Such deficit resulted from the County not funding 100% of the operating deficits of these activities in the current or past years and will be funded in 2018 operating subsidy payments.

The Internal Service Fund has a net deficit of $20,481 at December 31, 2017. This deficit results from the County electing only to fund the minimum asset reserve required by the Commonwealth of Pennsylvania for self-insured entities.

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.

The County has elected to self-insure its employee medical insurance plan. The County has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the County for any medical costs over $50,000 per covered individual per year. The County believes that is has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The County has recorded an asset for payments in excess of all asserted and estimated unasserted claims amounting to $1,703,454, recorded within its General Fund other receivables at December 31, 2017. The cost of medical coverage for employees was approximately $11,136,000 in 2017.

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 for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Balance, January 1	$ 1,535,434	$ 1,565,577
Claims incurred	809,468	859,065
Claims paid	(767,571)	(889,208)
Balance, December 31	$ 1,577,331	$ 1,535,434

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, 2017 are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	$ 5,618,303	$ 193,818
Health and Human Services Fund	211,010	579,499
Debt Service Fund	-	338,911
Capital Projects Fund	101,356	169,720
Non-Major Funds	37,602	1,499,768
Fiduciary Fund	-	3,186,555
Total	$ 5,968,271	$ 5,968,271

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, which the County anticipates repaying within the next year.

The amounts due from the Agency Fund to other funds represents amounts collected by various internal row offices (e.g., Sheriff, Treasurer, etc.) on behalf of other parties that have yet to be remitted to the County's General Fund.

The Capital Projects Fund owes the General Fund $111,030 for future projects.

Interfund transfers in 2017 are summarized as follows:

	Transfers In	Transfers Out
General Fund:		
Capital Projects Funds	$ 591,494	$ 1,250,000
Non-Major Funds	-	1,439,624
Internal Service Fund	-	988,289
Health and Human Services Fund	-	112,812
Total General Fund	591,494	3,790,725
Health and Human Services Fund,		
General Fund	112,812	-
Debt Service Fund,		
Capital Projects Fund	-	1,121,887
Capital Projects Funds,		
General Fund	1,250,000	591,494
Debt Service Fund	1,121,887	-
Total Capital Projects Funds	2,371,887	591,494
Non-Major Funds,		
General Fund	1,439,624	-
Internal Service Fund,		
General Fund	988,289	-
Totals	$ 5,504,106	$ 5,504,106

The General Fund transferred funds to the Capital Projects Fund in the total amount of $1,250,000 to fund future infrastructure improvements, to the Non-Major Funds $1,439,624 for operating subsidies of Liquid Fuels, Domestic Relations, and Community Development funds, to the Internal Service Fund $988,289 to fund workers compensation claims incurred by the County during the year, and to the Health and Human Services Fund $112,812 for operating subsidy.

Due From/To Component Units

The County has advanced $1,688,970 to the MPSA primarily to fund MPSA's capital projects. This advance is expected to be received once MPSA receives its Commonwealth Redevelopment Assistance Capital Program Grants.

The County has advanced $2,335,103 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund repairs to the facility ($425,175) and to fund debt service payments ($1,909,928). In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of $1,775,000 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.

17. Commitments

At December 31, 2017, the County was in the process of completing a variety of capital projects. A summary of the significant projects underway is as follows:

Project	Awarded Amount	Expended to Date	Remaining to Expend
Building renovations	$ 16,939,157	$ 2,774,151	$ 14,165,006

18. Concentration of Labor

At December 31, 2017, approximately 66% of the County's employees are represented by unions.

19. New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This Standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a statement of net position and statement of changes in net position will now be required. The County is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). To the extent applicable, the County is required to adopt Statement No. 85 for its calendar 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The County is required to adopt Statement No. 86 for its calendar 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this Statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This Statement establishes a single model for lease accounting based on the foundational principle that all long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying asset. The County is required to adopt Statement No. 87 for its calendar year 2020 financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*. The primary objective of this Statement is to enhance information included in notes to governmental financial statements relating to debt, including lines of credit, collateral for debt, terms of events of default with significant finance related consequences. The County is required to adopt Statement No. 88 for its calendar year 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. To the extent applicable, the County is required to adopt Statement No. 89 for its calendar year 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. To the extent applicable, the County is required to adopt Statement No. 90 for its calendar year 2019 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 statements.

20. Subsequent Event

In July 2018, the County issued it General Obligation Notes, Series of 2018 in the amount of $15,000,000 for the purposes of (1) acquiring, planning, designing, constructing, renovating, improving, furnishing and equipping of new facilities of the County for Courts;(2) renovations to existing facilities; (3) renovation and improvements for roads, bridges and parks in the County; (4) purchasing capital equipment for use by the County; (5) additional capital projects of the County; and (6) paying the costs of issuance of the Note. The Note is an interest only agreement through August 2020, when it converts to an amortizing note due in varying installments of principal and interest through maturity.

County of Lackawanna, Pennsylvania

Schedule of Revenues, Expenditures and Changes in Fund Balances -
General and Debt Service Funds Budget And Actual - Unaudited
Year Ended December 31, 2017

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	$ 62,433,920	$ 63,022,118	$ 588,198	$ 16,664,000	$ 16,382,570	$ (281,430)
Payments in-lieu of taxes	278,000	252,699	(25,301)	-	-	-
Intergovernmental	17,134,300	17,107,297	(27,003)	75,000	-	(75,000)
Charges for services	21,877,185	24,086,998	2,209,813	-	1,009,518	1,009,518
Interest and rent	44,641	27,920	(16,721)	-	55,086	55,086
Court costs, fines and forfeitures	37,000	209,691	172,691	-	-	-
Contributions and other	325,081	1,155,189	830,108	-	-	-
Total revenues	102,130,127	105,861,912	3,731,785	16,739,000	17,447,174	708,174
Expenditures						
General government - administrative	20,648,728	24,578,163	(3,929,435)	-	24,750	(24,750)
General government - judicial	22,356,120	22,443,859	(87,739)	-	-	-
Public safety and corrections	35,373,100	34,702,637	670,463	-	-	-
Public works and enterprises	133,593	126,906	6,687	-	-	-
Health and human services	16,449,609	16,103,013	346,596	-	-	-
Culture and recreation	2,870,436	2,626,878	243,558	-	-	-
Community and economic development	444,850	788,728	(343,878)	-	-	-
Miscellaneous expense	860,528	715,531	144,997	-	-	-
Debt service:						
Principal	-	-	-	8,864,108	9,821,379	(957,271)
Interest	30,000	-	30,000	10,646,141	9,655,203	990,938
Note issuance costs	-	-	-	425,000	954,028	(529,028)
Total expenditures	99,166,964	102,085,715	(2,918,751)	19,935,249	20,455,360	(520,111)
Excess (Deficiency) of Revenues Over Expenditures	2,963,163	3,776,197	813,034	(3,196,249)	(3,008,186)	188,063
Other Financing Sources (Uses)						
Note proceeds	-	-	-	-	60,828,550	60,828,550
Current refunding payment to note trustee	-	-	-	-	(58,760,135)	(58,760,135)
Transfers in	-	591,494	591,494	-	-	-
Transfers out	(4,587,315)	(3,790,725)	796,590	-	(1,121,887)	(1,121,887)
Total other financing sources (uses), net	(4,587,315)	(3,199,231)	1,388,084	-	946,528	946,528
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	(1,624,152)	576,966	2,201,118	(3,196,249)	(2,061,658)	1,134,591
Fund Balance, Beginning	16,905,889	24,942,407	8,036,518	6,036,398	9,025,757	2,989,359
Fund Balance, Ending	$ 15,281,737	$ 25,519,373	$ 10,237,636	$ 2,840,149	$ 6,964,099	$ 4,123,950

County of Lackawanna, Pennsylvania

Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Year Ended December 31, 2017
(Unaudited)

	2017	2016	2015
Total Pension Liability			
Service cost	$ 6,268,302	$ 6,108,365	$ 5,624,600
Interest cost	15,524,256	14,512,054	13,899,310
Differences between expected and actual experience	2,771,596	(1,363,174)	(509,255)
Changes in assumptions	-	-	-
Benefit payments, including refunds of member contributions	(10,023,340)	(10,127,613)	(10,320,059)
Net change in total pension liability	14,540,814	9,129,632	8,694,596
Total Pension Liability, Beginning	205,008,393	195,878,761	187,184,165
Total Pension Liability, Ending (a)	$ 219,549,207	$ 205,008,393	$ 195,878,761
Plan Fiduciary Net Position			
Employer contributions	$ 600,000	$ 600,000	$ 500,000
Employee contributions	4,198,386	4,238,646	3,749,484
Other contributions	-	-	-
Net investment income	11,997,784	(1,350,579)	10,223,630
Benefits payments, including refunds of member contributions	(10,023,340)	(10,127,613)	(10,320,059)
Administration	(448,899)	(465,209)	(459,897)
Other	-	-	-
Net change in plan fiduciary net position	6,323,931	(7,104,755)	3,693,158
Plan Fiduciary Net Position, Beginning	154,382,409	161,487,164	157,794,006
Plan Fiduciary Net Position, Ending (b)	$ 160,706,340	$ 154,382,409	$ 161,487,164
Net pension liability, ending (a) - (b)	$ 58,842,867	$ 50,625,984	$ 34,391,597
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	73.20%	75.31%	82.44%
Covered-Employee Payroll	$ 49,952,306	$ 45,821,177	$ 46,190,968
Net pension liability as a percentage of covered-employee payroll	117.80%	110.49%	74.46%

The County implemented GASB Statement No. 68 during its year ended December 31, 2015.
Information prior to 2014 is not available.

County of Lackawanna, Pennsylvania

Required Supplementary Information
Schedule of Employer Contributions
Year Ended December 31, 2017
(Unaudited)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	$ 3,348,238	$ 3,233,618	$ 2,483,175	$ 2,478,622	$ 4,139,516	$ 4,089,804	$ 3,967,756	$ 4,801,039	$ 3,712,594	$ 1,707,660
Contributions in relation to the actuarially determined contribution	-	600,000	500,000	500,000	500,000	500,000	-	65,733	-	-
Contribution deficiency (excess)	$ 3,348,238	$ 2,633,618	$ 1,983,175	$ 1,978,622	$ 3,639,516	$ 3,589,804	$ 3,967,756	$ 4,735,306	$ 3,712,594	$ 1,707,660
Covered-employee payroll	$ 51,107,795	$ 49,952,306	$ 46,190,968							
Contributions as a percentage of covered-employee payroll	0.00%	1.20%	1.08%							

Notes to Schedule:

Valuation date: Actuarially determined contributions are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair Market Value
Inflation	3.0%
Salary increases	4.5%
Investment rate of return	7.5
Retirement age	Age 60 or 55 with 20 years of service
Mortality	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

The County implemented GASB Statement No. 68 during its year ended December 31, 2015. Certain information is not available prior to 2015.