

County of Luzerne, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2012



County of Luzerne, Pennsylvania

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Independent Auditors' Report

County Council of Luzerne County
Wilkes-Barre, 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 Luzerne, Pennsylvania (the "County"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following departments of the Health and Human Services Funds (major fund) - Area Agency on Aging for Luzerne/Wyoming Counties, Luzerne-Wyoming Counties Mental Health and Developmental Services Program, Luzerne-Wyoming Counties Drug and Alcohol Program, Luzerne County Children and Youth Services, and Luzerne County Office of Human Services. In addition we did not audit the financial statements of the Luzerne County Office of Community Development (major fund), and Luzerne County Flood Protection Authority (major fund). These major funds represent 100% of the assets, fund balance and revenues of the Health and Human Services Funds and 6%, 0.5%, and 37%, respectively of the assets, net position, and revenues of the Governmental Activities. Also we did not audit Domestic Relations, a special revenue fund, which represents 24%, 26%, and 26%, respectively of the assets, fund balance, and revenues of the Nonmajor funds and 1%, 2%, and 2%, respectively of the assets, net position, and revenues of the Governmental Activities. We also did not audit the financial statements of the Pension Trust Fund which represents 97%, 100%, and 100% of the assets, net position, and revenues of the Fiduciary Fund. Finally, we did not audit the Luzerne County Community College which represent 99% of the assets, net position and revenues of the aggregate discretely presented component units. Those financial 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 the Health and Human Services Funds, Luzerne County Office of Community Development, Luzerne County Flood Protection Authority and Domestic Relations, Pension Trust Fund, and Luzerne County Community College, is based solely on the reports 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.

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 Luzerne, Pennsylvania, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Other Postemployment Benefits* and Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* in 2012 to conform with accounting principles generally accepted in the United States of America. The County restated the beginning Net Position of its governmental activities for these adoptions.

As disclosed in Note 1 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for the year ended December 31, 2012. There was no effect on the beginning Net Position of its governmental activities.

As disclosed in Note 18 to the financial statements, the County restated its beginning, January 1, 2012, governmental funds fund balance and governmental activities net position to correct errors in accounting and to conform with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to the matters identified in the above three paragraphs.

Other Matters

Adjustments to Prior Period Financial Statements

As part of our audit of the 2012 financial statements, we also audited the adjustments described in Note 18 that were applied to restate the beginning, January 1, 2012, governmental funds fund balance and governmental activities net position. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 financial statements of the County other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 financial statements as a whole.

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 67, the schedule of funding progress for the Pension Trust Fund on page 68, and the schedule of funding progress for other postemployment benefits on page 69 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated April 11, 2014 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 11, 2014

County of Luzerne, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2012

This Management's Discussion and Analysis ("MD&A") is intended to provide a narrative overview and analysis of the financial activities of the County of Luzerne, Pennsylvania (the "County") for the year ended December 31, 2012 compared to the year ended December 31, 2011. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

Financial Highlights

Overall, the County's assets and deferred outflow or resources exceed the liabilities by \$183,064,111 at December 31, 2012.

General Fund expenses and other financing uses exceeded revenues and other financing sources in 2012 by \$7,431,574. This decreased the General Fund fund balance from \$3,675,861 at December 31, 2011 to a fund deficit of \$3,755,713 at December 31, 2012.

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities collateralized by the U.S. government. The securities and earnings on the investments in such trust funds are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, these bonds are considered defeased and the liability for such bonds has been removed from the statement of net position. At December 31, 2012, the amount of defeased bonds outstanding, but removed from the statement of net position, amounted to \$120,420,000.

In 2006, the County entered into two interest rate swaps that related to the County's General Obligation Bonds, Series A of 2006, in the amount of \$88,520,000. The County pays the Counterparty interest on the outstanding notional amounts of the bonds at a rate equal to 4.0125%, and receives the variable seven-day BMA (now known as the Securities Industry and Financial Markets Association Index – SIFMA). The swaps create a hedge versus the interest paid on the Series A of 2006 Bonds resulting in a synthetic fixed rate liability for the Series A of 2006 Bonds. The final termination date for the swaps is November 15, 2026. At December 31, 2012, the swap has a negative fair market value of approximately \$21,000,000, which was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Luzerne County Home Rule Charter was passed in November 2010 with an implementation date of January 1, 2012. In 2012, The County hired its first County Manager and filled eight division head positions. The Manager replaces the three Commissioner form of Government previously used in Luzerne County.

County of Luzerne, Pennsylvania

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

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net position (deficit) and the statement of activities. The statement of net position (deficit) reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net position (deficit) changed during the most recent fiscal year. All changes in the net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned and unused compensated absences.)

The government-wide financial statements can be found on pages 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 reported under the caption "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Luzerne County Home Rule Charter for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 67.

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

County of Luzerne, Pennsylvania

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

Fiduciary Funds

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

The basic Fiduciary Fund financial statements can be found on pages 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 27-66 of this report.

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

	<u>2012</u>	<u>2011</u>
Assets and Deferred Outflow of Resources		
Current and other assets	\$ 160,789,590	\$ 167,242,450
Capital assets, net	369,640,568	383,577,642
Total assets	530,430,158	550,820,092
Deferred outflow of resources	21,171,072	-
Total assets and deferred outflow of resources	<u>\$ 551,601,230</u>	<u>\$ 550,820,092</u>
Liabilities and Net Position		
Current liabilities	\$ 54,005,950	\$ 45,231,336
Long term and other liabilities	314,531,169	290,616,026
Total liabilities	<u>\$ 368,537,119</u>	<u>\$ 335,847,362</u>
Net Position		
Net investment in capital assets	\$ 205,500,809	\$ 217,956,999
Restricted	62,285,146	77,322,525
Unrestricted	<u>(84,721,844)</u>	<u>(80,306,794)</u>
Total net position	<u>\$ 183,064,111</u>	<u>\$ 214,972,730</u>

Total assets and deferred outflow of resources of the Luzerne County primary government increased from \$550,820,092 at December 31, 2011 to \$551,601,230 at December 31, 2012. This amounts to an increase of \$781,138 or 0.14%. Deferred outflows increased approximately \$21,200,000 as related to the hedging derivative instrument.

County of Luzerne, Pennsylvania

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

The County's total liabilities amounted to \$368,537,119 at December 31, 2012, an increase of \$32,689,757 or 9.73% over the balance at December 31, 2011. This increase is the result of recording other postemployment benefits (approximately \$8,100,000), the County's derivative instruments (investment derivative – approximately \$2,900,000 and hedging derivative - \$21,200,000), an increase in compensated absences (approximately \$1,000,000) and an increase in accounts payable (approximately \$5,030,000).

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

	<u>2012</u>	<u>2011</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 14,147,630	\$ 13,453,827
Operating grants and contributions	99,997,020	65,880,862
Capital grants and contributions	240,638	915,662
General Revenues:		
Tax levy for general purposes, net	100,202,071	88,851,209
Contributions and other	4,827,261	(1,947,759)
Total revenues	<u>219,414,620</u>	<u>167,153,801</u>
Expenses:		
General government – administrative	9,006,444	13,532,687
General government - judicial	30,244,882	28,442,506
General government – corrections	32,061,000	48,775,772
General government – other	3,268,303	818,600
Intergovernmental appropriations	14,852,685	-
Public safety - 911	8,292,086	-
Public works	9,006,298	7,515,552
Flood Protection Authority	6,402,600	-
Human services	89,939,907	47,768,931
Cultural and recreation	3,018,005	112,218
Community and economic development	6,302,106	9,693,931
Unallocated depreciation	4,091,580	-
Interest on long-term debt	12,246,203	14,757,354
Total expenses	<u>228,732,099</u>	<u>171,417,551</u>
Changes in net position	(9,317,479)	(4,263,750)
Net position, beginning, as restated	<u>192,381,590</u>	<u>219,236,480</u>
Net position , ending	<u>\$ 183,064,111</u>	<u>\$ 214,972,730</u>

The County's total revenues and expenses increased from 2011 to 2012 due to changes in the form of government, which changed the functional expense classifications. In addition, there were changes within the overall structure of the County, leading to the inclusion of Mental Health and Developmental Services Programs, Area Agency on Aging.

County of Luzerne, Pennsylvania

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

Financial Analysis of the Funds

General Fund (Major Fund)

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

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 94,914,677	\$ 89,894,724	\$ 5,019,953	5.58	%
Intergovernmental	3,688,840	3,700,603	(11,763)	-0.32	
Charges for service	4,894,906	5,894,150	(999,244)	-16.95	
Licenses and permits	3,163,111	-	3,163,111	N/A	
Fines and forfeits	1,446,549	1,814,033	(367,484)	(20.26)	
Interest and rent	44,248	946,109	(901,861)	(95.32)	
Contributions and other	1,307,374	3,038,043	(1,730,669)	(56.97)	
Tax monetization	-	7,819,243	(7,819,243)	(100.00)	
Transfers in	700,000	796	699,204	87,839.70	
Total revenue	<u>\$ 110,159,705</u>	<u>\$ 113,107,701</u>	<u>\$ (2,947,996)</u>	<u>(2.61)</u>	<u>%</u>

Total revenue in the General Fund decreased by \$2,947,996 or approximately 2.6% from 2011 to 2012.

Tax revenue increased \$5,019,953 from 2011 to 2012 primarily due to two reasons: a \$3,870,329 increase in prior year tax claim revenue and a 2% increase in the current year levy due to a 2% milage increase from 5.2150 to 5.3200 for approximately \$1,745,610. The tax claim revenue increase is based on eligible 2010 and 2011 properties available for tax sale. This number increased partly due to the 2009 reassessment and also Northeast Revenue having the ability to impose a tax sale on those properties if prior year taxes were not paid.

Licenses and permits is a new category break-out for 2012 due to financial changes incorporated from the adoption of the Home Rule Charter as of January 1, 2012. This includes items such as Hunting, Fishing and Dog Licenses, and Pin Certifications most of these would have been included in charges for service in 2011.

Contributions and other revenue decreased \$1,730,669 from 2011 to 2012 the majority of this line item is other income. Major other income items are stop loss reimbursements, Levee Fee funds and Flood Protection Authority repayment of expense items.

The County received 7,819,243 for the sale of delinquent receivables related to the 2010 tax year. Luzerne did not budget or receive any tax monetization proceeds during the 2012 calendar year.

Transfers-in increased by \$699,204 from 2011 to 2012 because the County no longer has to pay debt repayments relative to the 1997 bond on the 911 building. The last payment of \$700,000 was calculated by Luzerne County's fee accountants at the time and paid in 2012.

County of Luzerne, Pennsylvania

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

General Fund (Major Fund)

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

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government:					
Administration	\$ 7,654,186	\$ 11,337,001	\$ (3,682,815)	(32.48)	%
Judicial	29,503,959	22,792,045	6,711,914	29.45	
Corrections	31,366,561	-	31,366,561	N/A	
Other	2,923,223	780,649	2,142,574	274.46	
Public safety	2,457,157	41,158,784	(38,701,627)	(94.03)	
Public works	4,082,041	2,372,876	1,709,165	72.03	
Human services	1,541,818	2,388,055	(846,237)	(35.44)	
Culture and recreation	70,948	74,810	(3,862)	(5.16)	
Conservation and development	-	274,794	(274,794)	(100.00)	
Debt service (TRAN)	129,984	3,166,289	(3,036,305)	(95.89)	
Payments to related agencies	9,838,418	1,872,508	7,965,910	425.41	
Payments to LCCC	-	7,172,446	(7,172,446)	(100.00)	
Transfers	28,022,984	26,208,417	1,814,567	6.92	
 Total expenses	<u>\$ 117,591,279</u>	<u>\$ 119,598,674</u>	<u>\$ (2,007,395)</u>	<u>(1.68)</u>	<u>%</u>

Total expenses in the General Fund decreased by \$2,007,395 from 2011 to 2012.

Home rule charter breaks out the Department of Corrections this was previously under the Public safety section of the Management Discussion and Analysis. Payments to LCCC are now part of Payments to related agencies for 2012.

Expenses within the general government – administrative function decreased by \$3,682,815 due to the reorganization of categories due to the home rule charter.

Expenses within the general government – judicial function increased by \$6,711,914 principally due to the reorganization of categories due to the home rule charter.

Corrections expenses were historically included in the public safety category. With the change to Home Rule Charter as of January 1, 2012, a new general government category was created specifically for corrections. These costs include Salary and Benefits, Day Reporting Center Cost, inmate health care and supplies and Contracted Services.

Expenses within the public works function increased by \$1,709,165 primarily due to \$1.4M debt service expenditure coming out of the Engineers Department. This was in the Debt Service line for 2011.

The County's debt service within the general fund decreased by \$3,036,305 from 2011 to 2012 due to the \$1.4M debt service payment being paid out of the 2008 bond funds.

County of Luzerne, Pennsylvania

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

Payments to related entities and LCCC decreased by \$922,709 from 2011 to 2012 due to payments being made in 2013 for 2012 expenditures due to the 2012 cash flow.

Transfers increased by \$1,814,567 from 2011 to 2012 due to an increase in the operating subsidy provided to County departments and agencies, predominantly within the Health and Human Service Funds.

General Fund Budget

The County adopts an annual operating budget for its General Fund in accordance with the provisions of the Luzerne County Home Rule Charter. A schedule showing the County's original and final budget amounts compared with actual results for the current year is provided on page 67.

The County's actual revenues for the General Fund for the year ended December 31, 2012 were \$4,008,495 less than the final budget. Of this amount, property taxes were \$2,802,460 and licenses and permits were \$924,286 less than budget. These budget variances are attributable to property tax for 2011 that were received in 2012. During 2011, the County monetized its delinquent taxes receivable and received approximately \$3,500,000 in both 2011 and 2012. In preparing the 2012 budget, the County anticipated receiving the entire amount of the proceeds (\$7,500,000) during 2012, when \$3,500,000 was received in 2011.

The County's actual expenditures for the year ended December 31, 2012 were \$4,526,474 more than was anticipated in the final budget. Of this amount, general government – corrections was \$4,443,759 more than budget and general government – other was \$1,118,565 less than budget. These budget variances are attributable to Corrections Salary and Benefits being over by approximately \$2.4M due in part to the furlough of workers in March 2012 that were anticipated to occur in December 2011 and the related overtime to staff the prison.

The overall General Fund had a negative overall budgetary variance of \$7,431,574.

Luzerne County Office of Community Development (Major Fund)

The Luzerne County Office of Community Development fund accounts for various funds received and disbursed from Federal and State programs within the County. Some of the programs provided by the Office of Community Development include HOME Investment Partnership, Community Development Block Grants, Revolving Loan programs, etc.

The Luzerne County Office of Community Development fund balance increased by \$289,309 from 2011 to a balance of \$50,258,294 at December 31, 2012, all of which is restricted for community development programs.

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, Mental Health and Developmental Services Programs, Drug and Alcohol, Children and Youth Services, and the Office of Human Services.

The Health and Human Service Fund has a fund balance of \$633,896 at December 31, 2012. This is an increase of \$633,896 from December 31, 2011.

County of Luzerne, Pennsylvania

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

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.

Capital Projects Fund (Major Fund)

The Capital Projects Fund accounts for activity related to acquisition, construction or reconstruction of County capital facilities and assets. Resources are derived primarily from proceeds of bond issues and capital grants. The County Capital Projects fund balance decreased from \$30,516,715 at December 31, 2011 to \$22,270,243 at December 31, 2012.

Internal Service Fund (Proprietary Fund)

The Internal Service Fund accounts for the County's self-insured workers compensation program. This program is monitored by the Commonwealth of Pennsylvania Bureau of Labor and Industry, which requires that the County maintain an irrevocable trust account for the payment of future benefits. The fund's total assets at December 31, 2012 were \$1,483,939.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of \$1,654,012 as of December 31, 2012. This is a decrease of \$198,262 in the fund deficit of \$1,852,274 reported at December 31, 2011.

Pension Trust Fund

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$10,233,601 during 2012 resulting in Plan net position of \$207,706,669 at December 31, 2012. Plan net position was \$197,473,068 at December 31, 2011.

Plan contributions by members amounted to \$3,869,649 and \$4,025,154 in 2012 and 2011, respectively. Benefits paid to retired members were \$14,059,668 and \$13,280,351 in 2012 and 2011, respectively.

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,711,947 in that role as of December 31, 2012.

County of Luzerne, Pennsylvania

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

Capital Assets

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

	January 1, 2012, as restated	Acquisitions	Disposals	Transfer	December 31, 2012
Non-depreciable capital assets:					
Land	\$ 53,151,245	\$ 215,509	-	\$ 20,305	\$ 53,387,059
Construction-in-progress	3,623,794	1,861,259	-	(480,649)	5,004,404
Total non-depreciable capital assets	56,775,039	2,076,768	-	(460,344)	58,391,463
Depreciable capital assets:					
Infrastructure	275,361,192	-	-	104,249	275,465,441
Investment in airport	499,319	-	-	-	499,319
Land improvements	399,184	-	-	-	399,184
Buildings and improvements	74,008,262	-	(88,912)	-	73,919,350
Machinery and equipment	116,066,177	578,130	(326,842)	356,095	116,673,560
Total depreciable capital assets	466,334,134	578,130	(415,754)	460,344	466,956,854
Less accumulated depreciation:					
Infrastructure	(63,850,863)	(3,762,532)	-	-	(67,613,395)
Investment in airport	(149,971)	(16,801)	-	-	(166,772)
Land improvements	(57,880)	(9,646)	-	-	(67,526)
Buildings and improvements	(34,932,097)	(1,639,937)	11,207	-	(36,560,827)
Machinery and equipment	(47,645,872)	(3,921,858)	268,501	-	(51,299,229)
Total accumulated depreciation	(146,636,683)	(9,350,774)	279,708	-	(155,707,749)
Net depreciable capital assets	319,697,451	(8,772,644)	(136,046)	460,344	311,249,105
Total	\$ 376,472,490	\$ (6,695,876)	\$ (136,046)	\$ -	\$ 369,640,568

At December 31, 2012, the County has committed \$4,345,881 to various ongoing construction projects primarily relating to Courthouse renovations. Total capital assets increased from \$383,577,642 at December 31, 2011 to \$384,387,294 at December 31, 2012.

Long Term Debt

As of December 31, 2012, the County's net general obligation debt was \$286,515,419 net of related discount, premium and deferred refunding amounts. See Note 7.

County of Luzerne, Pennsylvania

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

Economic Condition

Luzerne County had a 2% milage increase from 5.2150 to 5.3200 for approximately \$1,745,610 of additional revenue from the prior year. The County has streamlined the workforce by reducing the full-time equivalent headcount in both 2011 and continuing into 2012. The workforce is about 1,500 as of 2012, which constitutes a reduction of over 500 employees in the last ten years.

Economic Outlook (Negative GF Fund Balance)

Management is optimistic that 2012 will be the bottom of the deficit spending and old accounting practices. The 2013 audit will represent the first full year of budget and actual comparisons for the new form of government with tighter controls on expenditures as the County looks to improve financial reporting. The County first needs to cover any deficit before positive revenue over expenditure growth leads to a positive fund balance and reserve.

Management knows that the path to a stable future includes changes to major expenditure outlays primarily the Debt Service which is over 20% of the General Fund expenditure budget. Headcount has been reduced to a right-sized level of surrounding similar sized Counties.

The short term path to fiscal stability will begin with tighter expenditure controls, increased cash forecasting, and increased budget meetings to gain everyone's input. The County also needs to work toward first a reduced Tax Anticipation Note and secondly the elimination of the Note in future years. The long term path can more easily be achieved once the short-term goals are met. Once the County is on stable footing options like refinancing the debt can be discussed.

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 County Manager, County of Luzerne, 200 North River Street, Wilkes-Barre, PA 18711.

County of Luzerne, Pennsylvania

Statement of Net Position

December 31, 2012

	<u>Governmental Activities</u>	<u>Component Units</u>
Assets and Deferred Outflow of Resources		
Current Assets		
Cash and cash equivalents	\$ 38,359,947	\$ 30,333,331
Restricted cash and investments	1,328,131	-
Current portion of notes receivable	763,915	-
Prepaid expenses	921,465	219,689
Accounts receivable, net	3,742,880	2,300,867
Inventory	-	717,999
Due from other agencies	1,483,577	-
Due from other governments, net	16,656,001	-
Due from component units	(66,081)	66,081
Taxes and levee receivable, net	12,835,498	-
Other assets (other receivables)	73,274	-
Total current assets	76,098,607	33,637,967
Capital Assets, Net	369,640,568	50,663,345
Assets Held for Capital Projects and Debt Service	29,907,215	-
Notes Receivable	47,816,951	-
Other Noncurrent Assets	-	52,868
Bond issue costs	6,966,817	-
Total assets	530,430,158	84,354,180
Deferred Outflow of Resources		
Hedging derivative	21,171,072	-
Total assets and deferred outflow of resources	<u>\$ 551,601,230</u>	<u>\$ 84,354,180</u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 28,092,365	\$ 3,238,190
Accrued pension	5,296,712	-
Unpaid claims reserve	3,137,951	-
Current portion:		
Bond and notes payable	12,080,000	1,601,925
Capital lease obligations	-	289,858
Compensated absences	-	371,000
Accrued interest expense	1,599,322	-
Due to other governments	1,395,597	-
Unearned revenues	2,404,003	610,761
Total current liabilities	54,005,950	6,111,734
Noncurrent Liabilities		
Bonds and notes payable, net	274,435,419	8,761,373
Capital lease obligation	-	724,646
Other liabilities	-	154,923
Other postemployment benefits	8,091,325	7,604,145
Advance swap payment	2,761,041	-
Investment derivative - pay variable / receive variable basis swap	2,898,687	-
Hedging derivative - pay fixed / receive variable interest rate swap	21,171,072	-
Compensated absences	5,173,625	1,522,130
Total liabilities	368,537,119	24,878,951
Net Position (Deficit)		
Net investment in capital assets	205,500,809	39,027,745
Restricted	62,285,146	10,012,172
Unrestricted	(84,721,844)	10,435,312
Total net position	183,064,111	59,475,229
Total liabilities and net position	<u>\$ 551,601,230</u>	<u>\$ 84,354,180</u>

See notes to financial statements

County Of Luzerne, Pennsylvania

Statement of Activities

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Component Units
Primary Government						
Governmental activities:						
General government - administration	\$ (9,006,444)	\$ 3,605,589	\$ 3,573,571	\$ -	\$ (1,827,284)	
General government - judicial	(30,244,882)	1,388,417	738,389	-	(28,118,076)	
General government - corrections	(32,061,000)	371,200	819,159	-	(30,870,641)	
General government - other	(3,268,303)	3,186,884	245,769	-	164,350	
Intergovernmental appropriations	(14,852,685)	-	-	-	(14,852,685)	
Public safety	(8,292,086)	2,106,458	3,496,516	-	(2,689,112)	
Public works	(9,006,298)	1,110,573	4,028,779	-	(3,866,946)	
Flood Protection Authority	(6,402,600)	1,329,621	-	240,638	(4,832,341)	
Health and human services	(89,939,907)	1,048,888	79,805,449	-	(9,085,570)	
Culture and recreation	(3,018,005)	-	-	-	(3,018,005)	
Community and economic development	(6,302,106)	-	7,289,388	-	987,282	
Unallocated depreciation	(4,091,580)	-	-	-	(4,091,580)	
Interest on long-term debt	(12,246,203)	-	-	-	(12,246,203)	
Total governmental activities	<u>\$ (228,732,099)</u>	<u>\$ 14,147,630</u>	<u>\$ 99,997,020</u>	<u>\$ 240,638</u>	<u>\$ (114,346,811)</u>	
Component Units						
Luzerne County Community College	\$ (73,446,175)	\$ 26,423,555	\$ 39,534,720	\$ 4,698,096		\$ (2,789,804)
Luzerne County Visitors Bureau	(504,559)	52,256	467,489	-		15,186
Total component units	<u>\$ (73,950,734)</u>	<u>\$ 26,475,811</u>	<u>\$ 40,002,209</u>	<u>\$ 4,698,096</u>		<u>(2,774,618)</u>
General revenues and transfers						
Taxes levied for general purposes, net					100,202,071	-
Interest revenue					327,424	107,955
Grants, contributions and other revenue not restricted to specific programs					1,287,380	-
Miscellaneous revenue					1,489,196	-
Loss on disposal of capital assets					(136,046)	-
Change in fair value of investment derivative					1,859,307	-
Total general revenues					<u>105,029,332</u>	<u>107,955</u>
Change in net position					<u>(9,317,479)</u>	<u>(2,666,663)</u>
Net position, beginning						
As previously reported					214,972,730	62,162,655
Restatement					<u>(22,591,140)</u>	<u>(20,763)</u>
As restated					<u>192,381,590</u>	<u>62,141,892</u>
Net position, ending					<u>\$ 183,064,111</u>	<u>\$ 59,475,229</u>

See notes to financial statements

County of Luzerne, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2012

	<u>General Fund</u>	<u>Luzerne County Office of Community Development</u>	<u>Health and Human Services Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Flood Protection Authority</u>	<u>Non-Major Funds</u>	<u>Total</u>
Assets								
Cash and cash equivalents	\$ 1,095,898	\$ 12,576,415	\$ 9,731,585	\$ 1,310	\$ -	\$ 4,631,771	\$ 10,240,434	\$ 38,277,413
Restricted cash and investments	-	-	-	6,100,000	22,326,471	1,480,744	-	29,907,215
Accounts receivable	2,769,103	40,109	359,393	-	-	-	574,275	3,742,880
Due from other agencies	1,483,577	-	-	-	-	-	-	1,483,577
Due from other funds	6,899,826	8,072	5,482,811	-	-	733,940	2,244,203	15,368,852
Notes receivable	1,807,802	46,764,008	9,056	-	-	-	-	48,580,866
Due from other governments, net	525,870	-	13,669,686	-	40,421	75,579	2,344,445	16,656,001
Prepaid expenses	-	-	63,931	-	-	-	857,534	921,465
Taxes and levee receivable, net	11,890,108	-	-	-	-	782,055	163,335	12,835,498
Total	\$ 26,472,184	\$ 59,388,604	\$ 29,316,462	\$ 6,101,310	\$ 22,366,892	\$ 7,704,089	\$ 16,424,226	\$ 167,773,767
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)								
Liabilities								
Accounts payable and accrued liabilities	\$ 9,563,977	\$ 36,649	\$ 16,076,204	\$ -	\$ 21,314	\$ 156,967	\$ 1,058,575	\$ 26,913,686
Accrued payroll and benefits	924,197	-	-	-	-	-	114,350	1,038,547
Accrued pension	5,296,712	-	-	-	-	-	-	5,296,712
Due to other funds	4,351,688	8,072	10,220,937	-	75,335	229,350	483,470	15,368,852
Due to other governments	314,923	4,312	1,076,362	-	-	-	-	1,395,597
Other payables	25,260	-	114,872	-	-	-	-	140,132
Unearned revenues	9,751,140	9,081,277	1,194,191	-	-	1,367,313	-	21,393,921
Total liabilities	30,227,897	9,130,310	28,682,566	-	96,649	1,753,630	1,656,395	71,547,447
Deferred Inflows of Resources								
Deferred revenue	-	-	-	-	-	1,088,629	-	1,088,629
Fund Balances (Deficit)								
Non-spendable	1,807,802	-	63,931	-	-	-	857,534	2,729,267
Restricted	-	50,258,294	66,830	6,101,310	22,270,243	3,616,614	13,910,297	96,223,588
Assigned	-	-	503,135	-	-	1,245,216	-	1,748,351
Unassigned	(5,563,515)	-	-	-	-	-	-	(5,563,515)
Total fund balances (deficit)	(3,755,713)	50,258,294	633,896	6,101,310	22,270,243	4,861,830	14,767,831	95,137,691
Total	\$ 26,472,184	\$ 59,388,604	\$ 29,316,462	\$ 6,101,310	\$ 22,366,892	\$ 7,704,089	\$ 16,424,226	\$ 167,773,767

See notes to financial statements

County of Luzerne, Pennsylvania

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

Total Fund Balances - Governmental Funds		\$ 95,137,691
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.		(1,654,012)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		369,640,568
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported as unearned revenue in the funds.		9,842,560
Deferred revenue in the governmental fund balance sheet include amounts that are not considered a current financial resource. Such amounts related to Luzerne County Office of Community Development and the Flood Protection Authority.		10,169,906
Bond issue costs are deferred and amortized over the life of the underlying bonds in the statement of net position.		6,966,817
Hedging derivative asset is not related to the current period and therefore is not reported as an asset in the funds.		21,171,072
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	\$ 286,515,419	
Other postemployment benefits	8,091,325	
Advance swap payment	2,761,041	
Compensated absences	5,173,625	
Hedging derivative	<u>21,171,072</u>	
		(323,712,482)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		(2,898,687)
Accrued interest payable is included in the statement of net position.		<u>(1,599,322)</u>
Total Net Position - Governmental Activities		<u>\$ 183,064,111</u>

See notes to financial statements

County of Luzerne, Pennsylvania

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

Year Ended December 31, 2012

	General Fund	Luzerne County Office of Community Development	Health and Human Services Funds	Debt Service Fund	Capital Projects Fund	Flood Protection Authority	Non-Major Funds	Total Governmental Funds
Revenues								
Taxes	\$ 94,843,249	\$ -	\$ -	\$ -	\$ -	\$ 1,173,045	\$ 2,391,562	\$ 98,407,856
Payments in lieu of taxes	71,428	-	-	-	-	-	-	71,428
Intergovernmental	3,688,840	5,899,367	75,672,619	-	-	293,137	11,376,070	96,930,033
Charges for service	4,894,906	-	736,074	-	-	-	2,871,777	8,502,757
Licenses and permits	3,163,111	-	-	-	-	-	889,341	4,052,452
Fines and forfeits	1,446,549	-	-	-	-	-	-	1,446,549
Interest and rent	44,248	444,139	48,299	49	53,056	5,098	26,107	620,996
Contributions and other	1,307,374	245,293	207,569	-	1,425,079	2,065	810,405	3,997,785
Total revenues	109,459,705	6,588,799	76,664,561	49	1,478,135	1,473,345	18,365,262	214,029,856
Expenditures								
Current:								
General government:								
Administration	7,654,186	-	-	-	-	-	-	7,654,186
Judicial	29,503,959	-	-	-	-	-	8,156,865	37,660,824
Corrections	31,366,561	-	-	-	-	-	-	31,366,561
Other	2,923,223	-	-	-	-	-	-	2,923,223
Public safety	2,457,157	-	-	-	-	-	5,838,400	8,295,557
Public works	4,082,041	-	-	-	-	1,273,603	5,048,632	10,404,276
Culture and recreation	70,948	6,299,490	-	-	-	-	-	6,370,438
Health and human services	1,541,818	-	81,585,560	-	-	-	-	83,127,378
Intergovernmental appropriations	9,838,418	-	-	-	5,392,291	-	-	15,230,709
Debt service:								
Principal	-	-	-	7,750,000	-	2,510,000	-	10,260,000
Interest	129,984	-	-	11,058,407	-	1,066,050	-	12,254,441
Capital outlay	-	-	-	-	4,807,316	-	-	4,807,316
Total expenditures	89,568,295	6,299,490	81,585,560	18,808,407	10,199,607	4,849,653	19,043,897	230,354,909
Excess (Deficiency) of Revenues Over Expenditures	19,891,410	289,309	(4,920,999)	(18,808,358)	(8,721,472)	(3,376,308)	(678,635)	(16,325,053)
Other Financing Sources (Uses)								
Transfers in	700,000	-	4,868,527	22,384,457	475,000	3,576,050	-	32,004,034
Transfers out	(28,022,984)	-	-	(3,576,050)	-	-	(1,175,000)	(32,774,034)
Total other financing sources (uses)	(27,322,984)	-	4,868,527	18,808,407	475,000	3,576,050	(1,175,000)	(770,000)
Net Change in Fund Balance	(7,431,574)	289,309	(52,472)	49	(8,246,472)	199,742	(1,853,635)	(17,095,053)
Fund Balances, Beginning								
As previously reported	2,995,555	49,978,485	203,181	6,101,261	30,516,715	5,932,464	18,820,608	114,548,269
Restatement	680,306	(9,500)	483,187	-	-	(1,270,376)	(2,199,142)	(2,315,525)
As restated	3,675,861	49,968,985	686,368	6,101,261	30,516,715	4,662,088	16,621,466	112,232,744
Fund (Deficit) Balances, Ending	\$ (3,755,713)	\$ 50,258,294	\$ 633,896	\$ 6,101,310	\$ 22,270,243	\$ 4,861,830	\$ 14,767,831	\$ 95,137,691

See notes to financial statements

County of Luzerne, Pennsylvania

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

Total Net Change In Fund Balances - Governmental Funds \$ (17,095,053)

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. 198,262

Capital asset additions are reported as expenditures in the governmental funds. 2,654,898

Depreciation expense on capital assets is reported in the statement of activities. (9,350,774)

Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities. (136,046)

Because some property taxes will not be collected for several months after the County's calendar year ends, they are not considered as "available" revenues in the governmental funds. Unearned tax revenues decreased by this amount during the year. 2,895,832

Non-exchange revenue is only recognized when measurable and available. Therefore, non-exchange balances collected after 60 days of the end of the year are not recognized as revenue until the period collected. 1,083,830

The receipt (repayment) of bond and note principal is an other financing source (use) in the governmental funds, but the receipt (repayment) increases (reduces) long-term liabilities in the statement of net position. The effect of these activities for the 2012 calendar year is as follows:

Repayment of bond and note principal	10,260,000	
Repayment of capital leases	4,232	
Amortization of bond discount	(57,050)	
Amortization of premiums	193,236	
Amortization of deferred refunding	549,228	
Amortization of bond issue costs	(707,414)	
Change in accrued interest on bonds payable	26,006	10,268,238

Governmental funds report changes in investment derivative instruments only when those instruments provide or use financial resources. However, in the statement of activities, changes in the fair value of investment derivative instruments are changes in economic resources and are reported in each period in which there is a change in the fair value of the investment. This is the amount of change in the fair value of investment derivatives in the current period. 1,859,307

Other postemployment benefit (OPEB) expense reported in the statement of activities is recognized on the accrual basis. The net OPEB obligation is adjusted for any difference between OPEB expense (\$796,381) and contributions made in relation to the annual required contribution (ARC) (\$196,918). (599,463)

In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned and used. (1,096,510)

Change in Net Position of Governmental Activities \$ (9,317,479)

County of Luzerne, Pennsylvania

Statement of Net Deficit - Proprietary Fund

December 31, 2012

	Internal Service Fund
Assets	
Current Assets	
Cash	\$ 82,534
Restricted investments	1,328,131
Other receivables	<u>73,274</u>
Total	<u>\$ 1,483,939</u>
Liabilities and Net Deficit	
Unpaid claims reserve	\$ 3,137,951
Net Deficit, Unrestricted	<u>(1,654,012)</u>
Total	<u>\$ 1,483,939</u>

See notes to financial statements

County of Luzerne, PennsylvaniaStatement of Revenues, Expenses, and Change in Net Deficit - Proprietary Fund
Year Ended December 31, 2012

	Internal Service Fund
Operating Revenues,	
Charges for services	\$ 149,643
Operating Expenses	
Workers' compensation claims	615,283
Administrative	106,137
Total operating expenses	721,420
Operating Loss	(571,777)
Nonoperating Revenues	
Interest income	39
Transfer in	770,000
Total nonoperating revenues	770,039
Net Income	198,262
Net Deficit, Beginning	(1,852,274)
Net Deficit, Ending	<u>\$ (1,654,012)</u>

See notes to financial statements

County of Luzerne, Pennsylvania

Statement of Cash Flows - Proprietary Fund

December 31, 2012

	<u>Internal Service Fund</u>
Cash Flows from Operating Activities	
Cash received from users	\$ 204,150
Cash payments for goods and services	(109,675)
Cash payments for insurance claims	<u>(865,616)</u>
Net cash used in operating activities	<u>(771,141)</u>
Cash Flows from Investing Activities	
Interest income	39
Purchase of investments	(134)
Transfers in	<u>770,000</u>
Net cash provided by investing activities	<u>769,905</u>
Net Decrease in Cash	(1,236)
Cash, Beginning	<u>83,770</u>
Cash, Ending	<u><u>\$ 82,534</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (571,777)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Other receivables	54,507
Accounts payable	(3,538)
Claims payable	<u>(250,333)</u>
Net cash used in operating activities	<u><u>\$ (771,141)</u></u>

See notes to financial statements

County of Luzerne, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2012

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 11,237,686	\$ 5,711,947	\$ 16,949,633
Accrued interest	820,572	-	820,572
Contributions receivable	5,605,715	-	5,605,715
Investments, at fair value:			
U.S. government securities	35,470,741	-	35,470,741
Domestic corporate bonds	57,114,151	-	57,114,151
Domestic common stocks	34,074,470	-	34,074,470
Domestic preferred stocks	384,527	-	384,527
International stocks	11,911,062	-	11,911,062
Mutual funds	42,299,230	-	42,299,230
Other bonds	8,918,400	-	8,918,400
Total investments	190,172,581	-	190,172,581
Total	\$ 207,836,554	\$ 5,711,947	\$ 213,548,501
Liabilities and Net Position			
Liabilities			
Accounts Payable	\$ 129,885	\$ -	\$ 129,885
Funds held in fiduciary capacity	-	5,711,947	5,711,947
	129,885	5,711,947	5,841,832
Net Position			
Held in trust for pension benefits	207,706,669	-	207,706,669
Total	\$ 207,836,554	\$ 5,711,947	\$ 213,548,501

See notes to financial statements

County of Luzerne, Pennsylvania

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2012

	Pension Trust Fund
Additions,	
Contributions,	
County	7,769,622
Plan members	3,869,649
	<hr/>
Total Contributions	11,639,271
	<hr/>
Investment Income	
Net depreciation in fair value of investments	(3,787,399)
Realized gain	13,815,440
Interest	3,040,596
Dividends	1,995,364
Investment expense	(797,246)
Miscellaneous	22,785
	<hr/>
Net investment earnings	14,289,540
	<hr/>
Total additions	25,928,811
	<hr/>
Deductions	
Benefits paid	14,059,668
Participant contributions refunded	659,261
Death benefits paid	862,959
Administrative expenses	113,322
	<hr/>
Total deductions	15,695,210
	<hr/>
Increase in Net Position	10,233,601
	<hr/>
Net Position, Beginning	197,473,068
	<hr/>
Net Position, Ending	<u><u>\$ 207,706,669</u></u>

See notes to financial statements

County of Luzerne, PennsylvaniaCombining Balance Sheet - Discretely Presented Component Units
December 31, 2012

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
Current Assets			
Cash and cash equivalents	\$ 29,991,357	\$ 341,974	\$ 30,333,331
Accounts receivable	2,299,706	1,161	2,300,867
Inventory	717,999	-	717,999
Due from other governments	-	66,081	66,081
Prepaid expenses	219,689	-	219,689
Total current assets	33,228,751	409,216	33,637,967
Capital Assets, Net	50,663,345	-	50,663,345
Other Assets	52,868	-	52,868
Total	<u>83,944,964</u>	<u>409,216</u>	<u>84,354,180</u>
Liabilities			
Current liabilities:			
Accounts payable	1,277,130	10,794	1,287,924
Accrued expenses	1,950,266	-	1,950,266
Current portion of long-term debt	1,601,925	-	1,601,925
Current portion of compensated absences	371,000	-	371,000
Current portion of capital lease obligation	289,858	-	289,858
Deferred revenue	610,761	-	610,761
Total current liabilities	6,100,940	10,794	6,111,734
Long-term Debt	8,761,373	-	8,761,373
Capital lease obligation, net of current portion	724,646	-	724,646
Compensated Absences	1,484,384	37,746	1,522,130
Liability for post retirement benefits	7,604,145	-	7,604,145
Other accrued liabilities	154,923	-	154,923
Total liabilities	<u>24,830,411</u>	<u>48,540</u>	<u>24,878,951</u>
Net Position			
Net investment in capital assets	39,027,745	-	39,027,745
Restricted	10,012,172	-	10,012,172
Unrestricted	10,074,636	360,676	10,435,312
Total net position	<u>59,114,553</u>	<u>360,676</u>	<u>59,475,229</u>
Total	<u>83,944,964</u>	<u>409,216</u>	<u>84,354,180</u>

See notes to financial statements

County of Luzerne, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Position -

Discretely Presented Component Units

Year Ended December 31, 2012

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
Revenues			
Charges for services	\$ 26,423,555	\$ 52,256	\$ 26,475,811
Interest income	107,632	323	107,955
Operating grants and contributions	39,534,720	467,489	40,002,209
Capital grants and contributions	<u>4,698,096</u>	<u>-</u>	<u>4,698,096</u>
Total revenues	<u>\$ 70,764,003</u>	<u>\$ 520,068</u>	<u>\$ 71,284,071</u>
Expenses			
Culture and recreation	-	504,559	504,559
Education and general	69,431,257	-	69,431,257
Debt service	574,989	-	574,989
Unallocated depreciation and amortization	<u>3,439,929</u>	<u>-</u>	<u>3,439,929</u>
Total expenses	<u>73,446,175</u>	<u>504,559</u>	<u>73,950,734</u>
Change In Net Position	<u>(2,682,172)</u>	<u>15,509</u>	<u>(2,666,663)</u>
Net Position, Beginning			
As previously reported	61,796,725	365,930	62,162,655
Restatement	<u>-</u>	<u>(20,763)</u>	<u>(20,763)</u>
As restated	<u>61,796,725</u>	<u>345,167</u>	<u>62,141,892</u>
Net Position, Ending	<u>\$ 59,114,553</u>	<u>\$ 360,676</u>	<u>\$ 59,475,229</u>

See notes to financial statements

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

1. Summary of Significant Accounting Policies

The major accounting principles and practices followed by the County of Luzerne, 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 1786 and is a legal subdivision of the Commonwealth of Pennsylvania charged with general governmental powers under the laws of the Commonwealth. Effective January 1, 2012, the County operates under a Home Rule Charter and Administrative code. An elected eleven member County Council serves as the legislative branch of the County, which provides general governmental services, public safety, health and welfare, recreation, transportation, public works 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.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

The Health and Human Services Funds accounts for the operations of the Area Agency on Aging for Luzerne/Wyoming Counties, Luzerne-Wyoming Counties Mental Health and Developmental Services Program, Luzerne-Wyoming Counties Drug and Alcohol Program, Luzerne County Children and Youth Services, and Luzerne County Office of Human Services. These programs provide specified social services such as aging, healthcare, human services, drug and alcohol treatment and prevention, mental health, children and youth placement and care from State and Federal programs used in providing services under these programs. The Area Agency on Aging for Luzerne/Wyoming Counties, Luzerne-Wyoming Counties Mental Health and Developmental Services Program, and Luzerne-Wyoming Counties Drug and Alcohol Program operate on a fiscal year basis with a June 30 year-end.

The Luzerne County Office of Community Development Fund accounts for various funds received and disbursed from Federal and State grant programs related to development of the community (HOME, CDBG, etc.)

The Capital Projects Fund accounts for activity related to acquisition, construction or reconstruction of County capital facilities and assets. Resources are derived primarily from proceeds of bond issues and capital grants received.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

The Debt Service Fund accounts for the payment of the principal and interest on the County's debt obligations.

The Flood Protection Authority Fund accounts for the operations of the levee system, which is a blended component unit.

The County reports the following nonmajor governmental funds:

Liquid Fuels, 911, Probation, Wyoming Valley Airport, Domestic Relations, Hotel Rental Tax, Emergency and Hazardous Material response, 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. The Internal Service Fund is used to account for the revenues received and claims paid relating to the County's Workmen's Compensation Self-Insurance including the Workers' Compensation Irrevocable Trust. 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.

Budgetary Data

Commonwealth of Pennsylvania statutes require that all County Governments establish budgetary systems and approve annual operating budgets - Article V of the Home Rule Charter - Budget and Finance.

Luzerne County Council establishes the procedures for the adoption of the County's annual budgets and other fiscal actions, and limits the annual growth in real estate tax revenues to eight percent, except upon specific approval by the Court of Common Pleas. The County Manager will be responsible for preparing balanced budgets and presenting them to County Council for its consideration. The budgets must be available for public inspection for at least 30 days prior to adoption and at least one public hearing must be held. All County funds must be in the custody and control of the Division of Budget and Financial Services, and no payment can be made or obligation incurred unless in accordance with stated policies and procedures and unless there is a budget appropriation with a sufficient unencumbered balance. Provisions are also made for emergency appropriations, changes in the adopted budget, and the transfer of funds during the budget year. The County will be required to have a long-range operational, fiscal, and capital plan.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

New Accounting Principles

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended December 31, 2012. GASB No. 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g. life insurance) when provided separately from a pension plan.

The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (1) recognizing the cost of benefits in periods when the related services are received by the employer; (2) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (3) provides information useful in assessing potential demands on the employer's future cash flow.

The County implemented the recognition and disclosure requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of January 1, 2012. The incremental effects of adopting GASB No. 45 on the County's government wide financial statements were to increase noncurrent and total liabilities, to increase General Government - Corrections expenditures and to decrease unrestricted net position at December 31, 2012 by \$7,491,862. The effect on prior year change in net position is not reasonably determinable, however, management estimates the effect would be a decrease in change in governmental activity net position of approximately \$280,000 for the year ended December 31, 2011. (See Note 11).

The County adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Financial Instruments* during the year ended December 31, 2012. GASB No. 53 enhances the usefulness and comparability of derivative instrument information reported by governments by providing a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The effect of this adoption decreased the net position of the governmental activities at January 1, 2012 by \$4,757,944 and would have increased the December 31, 2011 governmental activities change in net position by \$845,168. (See Note 8).

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

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

The County adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, for the year ended December 31, 2012. GASB No. 63 standardized the presentation of deferred outflows of resources and deferred inflows of resources and their effect on net position. The County implemented the presentation requirements of GASB No. 63 as of January 1, 2012.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and all highly liquid investments with an original maturity of three months or less.

Restricted Cash and 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. Cash and investments held in Debt Service, Capital Projects and Flood Protection are restricted for the funds restrictive purpose.

Taxes Receivable

All property tax receivables are shown net of an allowance for uncollectible accounts. The property tax receivable allowance is calculated based on collection history and was approximately \$1,001,000 at December 31, 2012.

The Flood Protection Authority also levies a separate tax to cover the operation and maintenance costs of the Flood Control System. The amount of delinquent levee taxes receivable \$782,055 is reported, net of an allowance for doubtful accounts of approximately \$94,000.

The Hotel Room Rental Tax Fund, a non-major fund, charges a rental fee for hotel occupancy. At December 31, 2012, the Hotel Room Rental Tax Fund had receivables of \$163,335 with no related allowance.

Assets Held for Capital Projects and Debt Service

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

Assets held for debt service represent a debt service reserve fund pursuant to the County's outstanding Guaranteed Lease Revenue Bonds, Series of 2008.

Allowance for Notes Receivable

The Office of Community Development has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

Capital Assets

Capital assets, which include land, infrastructure, buildings, and equipment are reported in the governmental activity column in the government-wide financial statements but are not reported in the fund financial statements. Land, infrastructure, buildings and equipment, with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of greater than one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are charged to operations when incurred. Major outlays for capital assets and improvements are capitalized as the projects are completed.

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

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

	<u>Governmental Activities</u>	<u>Component Units</u>
Infrastructure	20 - 100 years	N/A
Investment in Airport	20 - 65 years	N/A
Land Improvements	20 years	N/A
Buildings and improvements	40 - 60 years	30 years
Machinery and equipment	3 - 20 years	5 - 10 years

Bond Issue Costs

Costs incurred in connection with the issuance of certain general obligation bonds have been deferred in the statement of net position and are being amortized, on a straight-line basis, over the life of the related obligation. Such costs include bond premiums or discounts on issuance and bond issuance costs.

Compensated Absences

County policy permits employees to accumulate a limited amount of earned, but unused compensation time. These benefits are payable to employees upon separation of services. All leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Derivative Financial Instruments

The County has entered into two fixed-to-variable interest rate swaps, which are considered hedge derivative instruments and two variable-to-variable basis swap, which are considered investment derivative instruments, related to its General Obligation Bonds, Series A of 2006 (Note 8).

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

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.
- *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.
- *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.
 - County Council is its highest level of decision-making authority, and
 - County Council commits funds through a formal 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 County Council.
 - The County Council authorized the County Manager to assign funds to specific purposes for general governmental purposes.
 - The County Council authorized the executive director or similar individual to assign funds to specific purposes within the Flood Protection Authority and the Health and Human Service agencies.
- *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.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

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 GASB Statement Nos. 14 and 39, the County has evaluated all related entities (authorities, commissions, and affiliates) for possible inclusion in the financial reporting entity. Statement Nos. 14 and 39 provide for 2 methods of including component units within the financial reporting entity depending on the nature of the significant of financial and operational relationships between the County and other entity. Blended component units, although legally separate entities are, in substance, part of the County's operations, and County Council members typically comprise the majority of their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

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:

Luzerne County Flood Protection Authority. The Authority was formed in May of 1996 in compliance with the Municipal Authorities Act of 1945, The Authority issued Guaranteed Flood Protection bonds and the proceeds of the bonds are being used to fund the raising of the protective levees along portions of the Susquehanna River in the Wyoming Valley; upgrade various facilities of the flood protection system; and finance the costs of the bond issue. These bonds were guaranteed by the County, which is also making the annual debt service payments.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

The Authority is administered by a five-member board. Three of the board members are from Luzerne County Council. The other two board members are the Director of County's Planning and Zoning office and the County's Assistant Engineer.

The revenues of the Flood Protection Authority consist of amounts received from the County pursuant to a guaranty agreement. These revenues will be used to retire the bonds when due and maintain the levee system. The Authority is economically dependent upon 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:

- **Luzerne County Community College (LCCC).** LCCC was established to provide affordable higher education to County residents. The board of directors of LCCC are appointed by the Luzerne County Council with the Council retaining no continuing direct control over the board's decisions. The board of LCCC appoints management, determines policies relating to the administration of the college and establishes tuition. The board is also responsible for all fiscal management functions, the contracting for audits and other services, and asset acquisition on behalf of LCCC. The board of LCCC approves and is responsible for adopting the annual budget. During 2012, the County contributed approximately \$6,200,000 toward the operation and debt service of LCCC and is responsible for operating deficits. This amount is included in the Intergovernmental appropriations line of the financial statements. County Council is also responsible for approving any debt issued on behalf of LCCC. The activities of LCCC are conducted within the geographic boundaries of Luzerne County, however, enrollment in LCCC is not limited to residents of Luzerne County.

The College is considered a special-purpose government engaged only in business-type activities. Accordingly the LCCC's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The accounting policies of LCCC are the same as those utilized by the County, unless specifically identified as being different.

LCCC prepares separate financial statements on a fiscal year ended June 30 basis. A copy of these financial statements can be obtained from the office of the County Manager.

- **Luzerne County Convention and Visitors Bureau (the "Bureau").** The Bureau was established via ordinance of the Luzerne County Board of Commissioners in July 1996, which also enacted a hotel room rental tax. The purpose of the Bureau is to encourage, promote, attract, stimulate, develop, and expand the business, industry, commerce, and tourism throughout Luzerne County.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

The Bureau is funded primarily by a portion of the hotel tax enacted by the County and imposed on transient individuals who occupy space in a hotel/motel in Luzerne County on a temporary basis. The tax rate is 5% based on the room rental charge. Funds are collected and controlled by the Luzerne County Treasurer and remitted to the Bureau on a monthly basis. The Bureau receives 20% of the hotel taxes collected. Other sources of funding include County funds, Commonwealth matching grants, co-op advertising, and membership fees.

Management of the Bureau is vested in the Board of Directors, which is comprised of seven (7) members, with four (4) members appointed by the Luzerne County Council and three (3) members elected by the general membership of the Bureau.

The Bureau does not issue separate financial statements.

Joint Venture

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:

- The County is a participant with the County of Lackawanna, Pennsylvania in the Wilkes-Barre/Scranton International Airport (the "Airport") with members of Luzerne County Council and the Lackawanna County Commissioners serving as the governing board of the Airport. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2012, the County did not provide operating or capital funding to the Airport. In addition, the County loaned the Airport \$900,000 for completion of the new terminal at the Airport in 2004, which was written off as uncollectible at December 31, 2012. The County has included a net investment in Airport of approximately \$333,000 in its capital assets at December 31, 2012.

The Airport's audit report is available for public inspection in the office of the County Manager.

- Luzerne-Wyoming Counties Mental Health Developmental Services Programs
- Area Agency on Aging for Luzerne/Wyoming Counties
- Luzerne-Wyoming Counties Drug and Alcohol Program

The boards of these organizations and programs are comprised of members of the Luzerne County Council and the Commissioners of Wyoming County. The County has no equity interest in these joint ventures, however, it does provide the majority of the funding for each organization or program to match the funding received from the Commonwealth of Pennsylvania. Because of the significance of the economic, operational, and financial support provided by Luzerne County to these organizations and programs, these joint ventures have been included in the County's financial statements within the Health and Human Services Funds.

These organizations and programs audit reports, as of June 30, 2012, are available for public inspection in the office of the County Manager.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

Related Organizations

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

- Luzerne County Convention Center Authority
- Luzerne County Transportation Authority
- Luzerne County Redevelopment Authority
- Luzerne County Housing Authority
- Luzerne County Industrial Development Authority

These organizations are not included in the County's financial statements.

3. Deposits with Financial Institutions and Investments

Pennsylvania statutes provide for investment of its County funds into certain authorized funds as follows:

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

In addition, the County's Administrative Code provides that a pension or retirement fund may make any investment authorized by 20 PA C.S. 73 (relating to fiduciary investments). Such authorized investments also include corporate stocks and bonds, real estate and other investments consistent with sound business practice. All cash deposits were held in Morgan Stanley through December 31, 2012. Cash held in the Pension Fund cash disbursement account is FDIC insured up to \$250,000.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

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, 2012, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$79,648,422 compared to the carrying amount of \$65,508,777. The difference is caused by items in-transit and outstanding checks. \$74,954,527 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.

At December 31, 2012, the bank and carrying balance of the County's pension deposits with financial institutions, including cash equivalents, was \$11,237,686, which was fully collateralized.

Investments

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

<u>Governmental Funds</u>	<u>Maturities</u>	<u>Fair Value</u>
Debt Service, Federated Treasury Obligation (Bond)	N/A	\$ 6,100,000
Capital Projects, Wilmington US Government Money market fund	N/A	1,837,348
Internal Service Fund, Money market funds	N/A	<u>1,328,132</u>
Total		<u>\$ 9,265,480</u>

Interest Rate Risk

The County 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

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

<u>Investment</u>	<u>Value</u>	<u>Moody's Rating</u>	<u>%</u>
U.S government obligations	<u>\$6,100,000</u>	AA+	<u>100.00 %</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

County Pension Investments

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

Pension Trust Fund	Maturities	Fair Value
U.S. Government notes and bonds		\$ 35,470,741
Mutual funds		42,299,230
Domestic corporate bonds		57,114,151
Domestic common stock		34,074,470
Other bonds		8,918,400
International stock		11,911,062
Domestic preferred stock		384,527
		<u>190,172,581</u>
Total		<u>\$ 190,172,581</u>

Interest Rate Risk

The County pension plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk and Concentration of Credit Risk

The County has limits on the amount that may be invested in any one issuer. At December 31, 2012, no one issuer totaled more than five percent of the Pension Trust Fund's Net Position. All investments of the Plan are held in trust at Morgan Stanley.

Foreign Currency Risk

The Plan's investment policy requires all international securities to be American depository receipts (ADR), American depository shares (ADS) non U.S. based companies traded in the U.S. or U.S. exchange traded funds. Accordingly, the County Retirement Fund is not subject to foreign currency risk.

Interest Rate Risk

Details of the Plan's exposure to interest rate risk are summarized as follows:

	Fair Market Value	Investment Maturities (in Years)			
		Less than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
U.S. Government notes and bonds	\$ 35,457,013	\$ -	\$ 1,920,732	\$ 4,496,755	\$ 29,039,526
Domestic corporate bonds	57,114,143	1,694,294	17,287,181	18,820,395	19,312,273
Other bonds	8,918,400	389,432	1,129,205	2,070,012	5,329,751
		<u>2,083,726</u>	<u>20,337,118</u>	<u>25,387,162</u>	<u>53,681,550</u>
Total	<u>\$ 101,489,556</u>	<u>\$ 2,083,726</u>	<u>\$ 20,337,118</u>	<u>\$ 25,387,162</u>	<u>\$ 53,681,550</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements

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During 2009, the Plan invested \$10,000,000 in the Term Asset-Backed Securities Loan Facility ("TALF") of the Federal Reserve Bank of New York. The investment period will continue through such time that the TALF loans cease to be available under the terms and conditions of the TALF program. Accordingly, the fair market value of these securities at December 31, 2012 of \$13,726 is included in other bonds on the maturity schedule.

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

<u>Rating</u>	<u>Value</u>	<u>%</u>
Aaa	\$ 8,911,583	8.78
Aa1	4,706,664	4.64
Aa2	3,547,060	3.50
Aa3	4,554,475	4.49
A1	6,715,555	6.62
A2	14,495,351	14.28
A3	8,140,745	8.02
Baa1	4,596,847	4.53
Baa2	6,056,437	5.97
Baa3	1,125,795	1.11
Ba1	112,344	0.11
Ba2	329,825	0.32
Ba3	907,804	0.89
B1	1,505,197	1.48
B2	1,493,674	1.47
B3	2,432,485	2.40
Caa1	114,425	0.11
Caa2	64,050	0.06
Not rated	31,679,240	31.22
Total	<u>\$ 101,489,556</u>	<u>100.00</u> %

The Plan does not have a formal investment policy that places limits on bonds with regard to bond ratings as a means of managing its exposure to credit risk.

Component Unit - Luzerne County Community College

Custodial Credit Risk

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, LCCC's deposits may not be returned to it. LCCC's investment policy requires pledging of collateral for all bank balances in excess of federal depository insurance with the collateral held by an agent of LCCC in the agent's name.

At June 30, 2012, the bank balance of LCCC's deposits with financial institutions was \$29,982,157 compared to the carrying amount of \$29,991,357. The difference is caused by items in-transit and outstanding checks. \$29,741,357 of LCCC'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 LCCC's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

4. Real Estate Taxes

Real estate property taxes attach as an enforceable lien on property on January 1, based on the assessed value listed as of the prior December 31 for all real property located in the County. Assessed values are established by the Luzerne Assessment Board at approximately 100% of calculated market value. The County bills its own property taxes, which are collected by elected tax collectors. Real estate property taxes levied for 2012 are recorded as receivables, net of estimated uncollectible amounts. The net receivables collected during 2012 and expected to be collected within the first sixty (60) days of 2013 are recognized as revenue in 2012. Net receivables estimated to be collectible subsequent to March 31 are reflected in unearned revenues. Prior years' levies are recorded using these same principles, and remaining receivables are annually reevaluated as to collectability. The rate of taxation in 2012 was 5.32 mills, for general purposes.

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

Delinquent real estate taxes receivable at December 31, 2012 were approximately \$12,800,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$1,001,000.

Component Unit - Flood Protection Authority

Beginning in 2009, the Authority imposed a levee fee to provide for the operation and maintenance of the flood control system. That fee, which is collected by Northeast Revenue Agency from all residential, commercial, industrial and tax-exempt parcels located in the Agnes flood plain, is based on the improvement value of the property obtained from the County Assessment Office. Two residential categories and three commercial, industrial and tax-exempt categories range from \$46.85 to \$676.44 annually. The fee covers the operation and maintenance costs of the flood control system, collection costs and a reserve fund for future capital equipment replacement.

The schedule for levee fees levied each year is as follows:

October 1	Levy date
December 31	10% penalty

Delinquent levee fees receivable at December 31, 2012 were approximately \$782,000.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

5. Notes Receivable - Luzerne County Office of Community Development (“OCD”)

Business Development Loans

These notes are generally for a period of five to fifteen years and are collateralized by letters of credit or mortgages.

The balance at December 31, 2012, consists of the following:

Business Development Loans, including accrued interest of \$3,004,954	\$ 35,968,323
Machinery and equipment loans	121,417
First time homebuyer loans	<u>4,363</u>
Total business development loans	<u>\$ 36,094,103</u>

HOME Program Notes Receivable

HOME Program notes receivable result from loans used for the acquisition and/or rehabilitation of rental properties that will contain at least two rental units. If the participant complies with all program regulations, either the full loan principal and interest will be forgiven at the end of the term or a partial forgiveness provision with an interest rate of 2%, depending on the program. If a participant does not comply with the program regulations, the loan will need to be repaid by its original terms, amortizing between five to fifteen years and interest accruing at 5%.

In addition, notes receivable result from the Residential Improvement Program and the Rehabilitation Grant Program, which provide assistance to refurbish single-family residences. Financing for the Residential Improvement Program was in two forms: (1) 50% grant funds and 50% loan assistance or (2) 40% grant funds and 60% loan assistance. The loan assistance will be in the form of a 10-year non-interest bearing note requiring monthly repayments. The grant portion and the assistance provided through the Rehabilitation Grant Program will be forgiven 10% annually over a 10 year period. The Office of Community Development no longer participates in the Residential Improvement Program or the Rehabilitation Grant Program; however, balances still exist in notes receivable. In 2012, notes receivable resulted in Growing Home Ownership Program which provides down payment assistance on new homes and/or rehabilitation.

Notes receivable also arise from the Home Ownership Program and the Luzerne County Pilot Lead Hazard Reduction Training Program. The principal amount of all loans will be recorded as notes receivable and unearned revenue in the period in which the funds are disbursed. Revenue will be recognized when a principal payment is received or a loan is forgiven. The principal balance of the HOME Program loans at December 31, 2012 was \$10,669,905.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

6. Capital Assets

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

	January 1, 2012, as restated	Acquisitions	Disposals	Transfer	December 31, 2012
Capital assets not being depreciated					
Land	\$ 53,151,245	\$ 215,509	\$ -	\$ 20,305	\$ 53,387,059
Construction-in-progress	3,623,794	1,861,259	-	(480,649)	5,004,404
Total capital assets, not being depreciated	56,775,039	2,076,768	-	(460,344)	58,391,463
Capital assets being depreciated					
Infrastructure	275,361,192	-	-	104,249	275,465,441
Investment in airport	499,319	-	-	-	499,319
Land improvements	399,184	-	-	-	399,184
Buildings and improvements	74,008,262	-	(88,912)	-	73,919,350
Machinery and equipment	116,066,177	578,130	(326,842)	356,095	116,673,560
Total capital assets, being depreciated	466,334,134	578,130	(415,754)	460,344	466,956,854
Less accumulated depreciation for					
Infrastructure	(63,850,863)	(3,762,532)	-	-	(67,613,395)
Investment in airport	(149,971)	(16,801)	-	-	(166,772)
Land improvements	(57,880)	(9,646)	-	-	(67,526)
Buildings and improvements	(34,932,097)	(1,639,937)	11,207	-	(36,560,827)
Machinery and equipment	(47,645,872)	(3,921,858)	268,501	-	(51,299,229)
Total accumulated depreciation	(146,636,683)	(9,350,774)	279,708	-	(155,707,749)
Net capital assets being depreciated	319,697,451	(8,772,644)	(136,046)	460,344	311,249,105
Governmental activities capital assets, net	\$ 376,472,490	\$ (6,695,876)	\$ (136,046)	\$ -	\$ 369,640,568

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

Depreciation expense was charged to governmental activities in the statement of activities at December 31, 2012 as follows:

Unallocated	\$ 4,091,580
Public works	5,179,201
Health and human services	<u>79,993</u>
Total	<u>\$ 9,350,774</u>

At December 31, 2012, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$5,005,000, which is included in construction in progress at December 31, 2012. The County is committed to additional costs of approximately \$4,346,000 related to these projects.

Component Unit - Luzerne County Community College

Capital asset activity for LCCC for the year ended June 30, 2012 was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 1,382,185	\$ -	\$ -	\$ 1,382,185
Construction in progress	<u>-</u>	<u>210,582</u>	<u>-</u>	<u>210,582</u>
Total capital assets not being depreciated	<u>1,382,185</u>	<u>210,582</u>	<u>-</u>	<u>1,592,767</u>
Capital assets being depreciated:				
Permanent campus	75,621,627	199,162	-	75,820,789
Furniture and fixtures	3,059,844	188,194	-	3,248,038
Equipment	23,182,650	1,335,941	-	24,518,591
Library books	1,837,540	53,198	-	1,890,738
Microfilm and AV equipment	666,492	9,982	-	676,474
Motor vehicles	<u>636,833</u>	<u>115,921</u>	<u>(37,200)</u>	<u>715,554</u>
Total capital assets being depreciated	<u>105,004,986</u>	<u>1,902,398</u>	<u>(37,200)</u>	<u>106,870,184</u>
Less accumulated depreciation	<u>(54,393,045)</u>	<u>(3,443,761)</u>	<u>37,200</u>	<u>(57,799,606)</u>
Total capital assets being depreciated, net	<u>50,611,941</u>	<u>(1,541,363)</u>	<u>-</u>	<u>49,070,578</u>
Component unit capital assets, net	<u>\$ 51,994,126</u>	<u>\$ (1,330,781)</u>	<u>\$ -</u>	<u>\$ 50,663,345</u>

Depreciation expense was \$3,443,761 for the year ended June 30, 2012.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

7. Long-Term Obligations

Description	January 1, 2012	Additions	Payments	December 31, 2012	Current Portion (Due in 2013)
(a) 2002 General Obligation Bonds, Series C	\$ 2,390,000	\$ -	\$ (360,000)	\$ 2,030,000	\$ 375,000
(b) 2003 General Obligation Bonds, Series C	12,890,000	-	(1,110,000)	11,780,000	1,145,000
(c) 2004 General Obligation Variable Rate Demand Bonds	6,175,000	-	(1,995,000)	4,180,000	2,060,000
(d) 2005 General Obligation Bonds, Series A	10,925,000	-	(105,000)	10,820,000	135,000
(e) 2005 Luzerne County Industrial Development Authority Guaranteed Variable Rate Demand Lease Revenue Bonds	12,475,000	-	(5,000)	12,470,000	5,000
(f) 1998 Guaranteed Flood Protection Bonds	22,480,000	-	(2,510,000)	19,970,000	1,400,000
(g) 2006 General Obligation Notes, Series A	88,515,000	-	-	88,515,000	-
(h) 2006 General Obligation Notes, Series B	9,025,000	-	-	9,025,000	50,000
(i) 2006 General Obligation Notes, Series C	4,340,000	-	(1,530,000)	2,810,000	2,810,000
(j) 2008 General Obligation Notes, Series A	42,830,000	-	(490,000)	42,340,000	1,830,000
(k) 2008 General Obligation Bonds, Series B	21,445,000	-	(980,000)	20,465,000	1,010,000
(l) 2008 General Obligation Bonds, Series C	4,265,000	-	(420,000)	3,845,000	475,000
(m) 2008 General Obligation Bonds, Series D	1,735,000	-	(5,000)	1,730,000	5,000
(n) 2008 General Obligation Bonds, Series E	1,795,000	-	(5,000)	1,790,000	5,000
(o) 2008 Luzerne County Industrial Development Authority Guaranteed Variable Rate Demand Lease Revenue Bonds	17,260,000	-	(730,000)	16,530,000	760,000
(p) 2009 General Obligation Notes	5,440,000	-	(5,000)	5,435,000	5,000
(q) 2009 General Obligation Bonds	5,185,000	-	(5,000)	5,180,000	5,000
(r) 2009 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds	18,990,000	-	(5,000)	18,985,000	5,000
Total	288,160,000	-	(10,260,000)	277,900,000	12,080,000
Plus bond premiums	1,632,759	-	(193,236)	1,439,523	-
Less bond discount	(783,110)	-	57,050	(726,060)	-
Plus deferred refunding amount	8,451,184	-	(549,228)	7,901,956	-
	<u>\$ 297,460,833</u>	<u>\$ -</u>	<u>\$ (10,945,414)</u>	<u>\$ 286,515,419</u>	<u>\$ 12,080,000</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

Governmental Activities

Specific information on each debt instrument is as follows:

- a. \$4,920,000 2002 General Obligation Bonds (Series C of 2002), payable in varying semi-annual installments plus interest of 3.80% to 4.20%, with final maturity scheduled for 2017. These bond proceeds were used to fund a self-insurance reserve to make one-time, up-front payments to settle certain workers' compensation claims and pay the costs of expenses of issuance on the bonds.
- b. \$21,040,000 2003 General Obligation Bonds (Series C of 2003), payable in varying annual installments plus interest of 3.35% to 5.25%, with final maturity scheduled for 2021. These bond proceeds were used to refund the 1995 A and 1997 bond issues, pay the costs of issuing and insuring the 2003 C Bonds, and fund future debt service.
- c. \$17,000,000 2004 General Obligation Variable Rate Demand Bond (Series of 2004), payable in varying annual installments plus a 10-year average variable rate interest of 3.00%, with final maturity scheduled for 2014. These bond proceeds were used to fund unfunded debt of the County, additional capital projects, and pay the costs of issuing and insuring the 2004 Bonds.
- d. \$11,070,000 General Obligation Bonds (Series A of 2005), payable in varying annual installments plus interest of 4.00% to 4.20%, with final maturity scheduled for 2020. These bond proceeds were used to finance a life transition plan for the Pension Trust Fund and pay the costs of issuing and insuring the bonds.
- e. \$12,500,000 Luzerne County Industrial Development Authority Guaranteed Variable Rate Demand Lease Revenue Bonds (Series of 2005), payable in varying annual installments plus interest, with final maturity scheduled for 2026. These bond proceeds were used to fund the acquisition of a leasehold interest in Moon Lake Park and the payment of the costs and expenses of issuing the bonds. The bond proceeds were paid to the County, as owner of the leased property (Moon Lake Park) as rent, subject to repayment as the bond payments are due.
- f. \$25,645,000 Luzerne County Flood Protection Authority Guaranteed Flood Protection Bonds (Series of 1998), payable in varying annual installments plus interest of 4.875% to 5.25%, with final maturity scheduled for 2023. These bond proceeds were used to refund the 1996 bond issue and finance working capital for the Flood Protection Authority.
- g. \$88,520,000 General Obligation Notes (Series A of 2006), with semi-annual interest only payments at 4.0125% through 2016, then annual incrementally increasing principal payments plus interest through 2026. The note agreement required the County to enter into an interest rate swap agreement, in which the bank will pay the County a variable interest rate. These note proceeds were used to refund the 2002 A, 2002 B (Capital Appreciation Bonds), 2003 A, 2003 D bond issues, and pay the costs of issuing and insuring the 2006 A notes.
- h. \$9,025,000 General Obligation Notes (Series B of 2006), with semi-annual interest only payments at 5.00%, then incrementally increasing principal plus interest payments in 2013 through 2016 with final maturity scheduled for 2016. These note proceeds were used to refund the 1995 B, 2001, 2003 B bond issues, and pay the costs of issuing and insuring the 2006 B notes.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

- i. \$10,230,000 Federally Taxable General Obligation Notes (Series C of 2006), with semi-annual installments plus interest at 5.20%, with final maturity scheduled for 2013. These note proceeds were used to refund the 2000 A, 2000 B, 2003 C, fund a portion of the unfunded actuarial accrued pension liability, and pay the costs of issuing and insuring the 2006 C note.
- j. \$44,480,000 General Obligation Bonds (Series A of 2008), due in semi-annual incrementally increasing principal plus interest payments at rates ranging from 4.67% to 5.61% per annum beginning in 2009 through 2027, with final maturity scheduled for 2027. These bond proceeds were issued to fund certain capital projects at, but not limited to, the County prison facilities, airport facilities, warehouse facilities, flood protection system, County bridges and parks; acquisition of real property and vehicles; upgrading and improving wireless information, financial computer, and technology systems; providing improvements to health and public safety programs; additional capital projects as approved by the Board; capitalizing interest on the Bonds; and paying the costs of issuance.
- k. \$24,145,000 General Obligation Bonds (Series B of 2008), due in annual incrementally increasing principal and semi-annual interest payments at rates ranging from 4.67% to 5.61% per annum beginning in 2009 through 2027 with final maturity scheduled for 2027. These bond proceeds were used to fund certain capital improvements within the County, fund capital improvements of Luzerne County Community College, fund capitalized interest, and pay the costs of issuing and insuring the bonds.
- l. \$5,300,000 General Obligation Bonds (Series C of 2008), with annual incrementally increasing principal payments and semi-annual interest payments at 7.0%, beginning in 2009 through 2018 with final maturity scheduled for 2018. These bond proceeds were used to fund unfunded debt of the County as authorized by the Court of Common Pleas of Luzerne County and to pay the costs and expenses of issuing and insuring the debts.
- m. \$1,750,000 General Obligation Bonds (Series D of 2008), with annual principal payments of \$5,000 and semiannual interest payments at 8.0%, beginning in 2009 through 2027. A final principal payment of \$1,660,000 will be due when the bond matures in 2027. These proceeds were used to fund a portion of the Debt Restructuring Project consisting of: (1) currently refunding a portion of the County's outstanding General Obligation Bonds, Series C of 2003, which matured on December 15, 2008 in the aggregate principal amount of \$990,000 and all interest due on the 2003 C Bond, (2) currently refunding a portion of the County's outstanding General Obligation Bond, Series A of 2005, which matured on December 15, 2008 in the aggregate principal amount of \$5,000 and all interest due on the 2005 A Bonds, and (3) paying the costs and expenses of issuance of the 2008 D Notes.
- n. \$1,810,000 General Obligation Bonds (Series E of 2008), with annual principal payments of \$5,000 and semiannual interest payments at 8.0%, beginning in 2009 through 2027. A final principal payment of \$1,720,000 will be due when the bond matures in 2027. These proceeds were used to fund a portion of the Debt Restructuring Project consisting of: (1) currently refunding a portion of the County's Federally Taxable General Obligation Bonds, Series C of 2006, which matures on November 15, 2013, which a portion consists of \$1,385,000 aggregate principal amount of the 2006 C Notes maturing on November 13, 2013, and subject to mandatory sinking fund redemption on November 15, 2008, and all interest due on that date all the 2006 C Notes, and (2) paying the costs and expenses of issuance of the 2008 E Bonds.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

- o. \$19,265,000 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds (Series of 2008), payable in varying annual incrementally increasing installments plus semiannual interest payments at rates ranging between 3.40% and 4.75%, with final maturity scheduled for 2027. The proceeds were used to finance working capital and the County's annual required contributes to its pension fund for 2007. These bond proceeds were used for the Authority's acquisition of a leasehold interest in certain properties owned by the County (Moon Lake Park) and to pay the costs of issuing and insuring the bonds. The County guaranteed the bonds and pursuant to the terms of the Sublease and guarantee agreement, is required to make all debt service payments required.
- p. \$5,455,000 General Obligation Notes (Series of 2009) with annual principal payments and semi-annual interest payments with an interest rate of 7.0%. The notes mature in 2026 and the proceeds of 2009 notes were used to pay a portion of the County's 2009 debt service on its outstanding General Obligation Bonds, Series A of 2000 (\$1,904,153), Series C of 2002 (\$384,020), Series C of 2003 (\$1,733,494), Series A of 2005 (\$465,522), Series A of 2008 (\$505,000), and to pay the costs of issuing the notes.
- q. \$5,200,000 General Obligation Bonds (Series of 2009) with annual principal payments and semi-annual interest payments with an interest rate of 6.75%. The bonds mature in 2023 and the proceeds of the 2009 bonds were used to pay a portion of the County's 2009 debt service on its outstanding General Obligation Notes, Series A of 2006 (\$2,953,125), Series C of 2006 (\$1,907,019) and to pay the costs of issuing the bonds.
- r. \$19,000,000 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds (Series of 2009) with annual principal payments and semi-annual interest payments at rates ranging from 7.5% to 7.75% with final maturity scheduled for 2027. The proceeds of leasehold interest will provide the County with working capital to finance a budgetary deficit in its 2009 fiscal year. These bond proceeds were used by the Authority to acquire a leasehold interest in certain promises owned by the County, consisting of the Water Street Parkade and the Bernard Brominiski Building and to pay the costs of issuing and insuring the bonds. The County guaranteed the bonds and pursuant to the terms of the Sublease and guarantee agreement, is required to make all debt service payments required.

Interest paid on these bonds and notes during the year ended December 31, 2012 amounted to \$12,254,441.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, net of the effect of the interest rate swaps (Note 8), as of December 31, 2012. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 12,080,000	\$ 13,132,196	\$ 25,212,196
2014	12,585,000	12,616,387	25,201,387
2015	13,185,000	11,996,497	25,181,497
2016	14,810,000	11,345,389	26,155,389
2017	16,375,000	10,653,406	27,028,406
2018 - 2022	94,715,000	42,063,238	136,778,238
2023 - 2027	114,150,000	18,038,367	132,188,367
Total	<u>\$ 277,900,000</u>	<u>\$ 119,845,480</u>	<u>\$ 397,745,480</u>

Defeased Debt

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities or securities collateralized by U.S. government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. At December 31, 2012, the amount of defeased bonds outstanding was \$120,420,000.

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

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2012</u>
General Obligation Bonds, Series A of 1995	2020	\$ 4,780,000
General Obligation Bonds, Series A of 1997	2021	6,845,000
General Obligation Bonds, Series A of 2003	2022	20,285,000
General Obligation Bonds, Series B of 2002	2023	32,340,000
General Obligation Bonds, Series A of 2002	2025	11,105,000
Guaranteed Flood Protection Authority Bonds, Series of 1996	2026	13,895,000
General Obligation bonds, Series D of 2003	2026	31,170,000
Total		<u>\$ 120,420,000</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

Component Unit - Luzerne County Community College

At June 30, 2012, LCCC's long-term debt obligations were as follows:

Description	July 1, 2011	Additions	Payments	June 30, 2012	Current Portion
Northeastern Pennsylvania Hospital and Education Authority Guaranteed College Revenue Bonds, Series of 1997	\$ 8,760,000	\$ -	\$ (1,435,000)	\$ 7,325,000	\$ 1,500,000
Hazleton Area Industrial Authority Guaranteed College Revenue Note 2011	3,126,819	-	(88,521)	3,038,298	101,925
Total	<u>\$ 11,886,819</u>	<u>\$ -</u>	<u>\$ (1,523,521)</u>	<u>\$ 10,363,298</u>	<u>\$ 1,601,925</u>

Specific information on each LCCC debt instrument is as follows:

In 1997, the Northeastern Pennsylvania Hospital and Education Authority issued its \$20,340,000 Guaranteed College Revenue Bonds, Series of 1997, due in varying annual installments including interest at rates ranging between 3.90% and 6.13% with final maturity schedule for 2016. The proceeds of the Bonds were loaned to LCCC pursuant to a promissory note agreement and used to finance capital projects of LCCC and pay the costs of issuing and insuring the bonds.

In 2011, the Hazleton Area Industrial Development Authority issued its \$3,150,000 Guaranteed College Revenue Note, Series of 2011, due in annual installments including interest of 4.99% per annum with final maturity scheduled for 2013. The proceeds of the Note were loaned to LCCC pursuant to a promissory note agreement and used to finance the new Culinary Arts Institute facility, other various capital improvements to LCCC and to pay the costs of issuing the Note.

The following summarizes LCCC's estimated future debt service requirements on these bonds and note payable as of June 30, 2012.

Year Ended June 30	Principal	Interest	Total
2013	\$ 1,601,925	\$ 487,100	\$ 2,089,025
2014	1,687,129	402,961	2,090,090
2015	1,772,599	334,081	2,106,680
2016	1,863,347	200,616	2,063,963
2017	963,875	148,544	1,112,419
Thereafter	2,474,423	921,442	3,395,865
Total	<u>\$ 10,363,298</u>	<u>\$ 2,494,744</u>	<u>\$ 12,858,042</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements
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8. Derivative Financial Instruments

Interest Rate Swaps

Objective of the Interest Rate Swap

The County entered into a two variable-to-fixed interest rate swap transactions in connection with the issuance of its General Obligation Notes, Series A of 2006 (the "2006A Notes"), in the notional amount of \$88,520,000, which matched the outstanding principal amount on the 2006A Notes. The County entered into these swap transactions to better manage cash flows and to create a hedge against interest rate fluctuations over the term of the related 2006A Notes.

Terms

On November 21, 2006, the County entered into two interest rate swaps that relate to the County's General Obligation Notes, Series A of 2006, in the aggregate notional amount of \$88,520,000, with JP Morgan Chase Bank, N.A. and PNC Bank. The County pays the counterparty interest on the outstanding notional amounts of the notes at a rate equal to 4.0125%, while receiving the variable seven-day Bond Market Association ("BMA"), now known as the Securities Industry and Financial Markets Association Index ("SIFMA"). The Interest Rate Swaps create a hedge versus the interest paid on the 2006A Notes resulting in a synthetic fixed rate liability for the 2006A Notes. The final termination date for the swaps is November 15, 2026.

The terms of the interest rate swaps are as follows:

Issue	Counterparty	Notional Amount	Effective Date	Variable Rate Received	Fixed Rate Paid	Fair Value	Swap Termination	Counterparty Credit Rating
Series A of 2006	JP Morgan	\$ 53,120,000	11/21/2006	SIFMA	4.0125%	\$ (12,704,537)	11/15/2026	Aa3/A
Series A of 2006	PNC	<u>35,400,000</u>	11/21/2006	SIFMA	4.0125%	<u>(8,466,535)</u>	11/15/2026	A/A
Total		<u>\$ 88,520,000</u>				<u>\$ (21,171,072)</u>		

At December 31, 2012, the SIFMA rate was 0.13%.

Fair Value

At December 31, 2012, the interest rate swaps had a negative fair value of \$21,171,072, which is reported as hedge derivative - pay fixed / receive variable interest rate swap in the governmental activities section of the statement of net position. Changes in the fair value are reported as a deferred inflow of resources in the governmental activities section of the statement of net position.

Credit Risk

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

County of Luzerne, Pennsylvania

Notes to Financial Statements

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The County's Master Swap Agreement contains netting provisions applicable to circumstances where the County enters into more than one derivative transaction with a single counterparty. Under these netting provisions, should one party become insolvent or otherwise default on its obligations, the close-out netting provisions permit the non-defaulting party to terminate all affected transactions and net any settlement amounts payable so that a single sum will be owed by, or owed to, the non-defaulting party.

Interest Rate Risk

The interest rate swap transaction reduces the County's exposure to interest rate risk. If the SIFMA rate received by the County is lower than the fixed rate the County is paying the counterparty (JP Morgan and PNC Bank) under the terms of the swap, the County would be obligated to make a periodic net swap payment to the counterparty - based on market conditions, the net swap payment due by the County to the counterparty could be significant.

Basis Risk

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

Termination Risk

The interest rate swap transaction was issued pursuant to the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy and exposes the County to termination risk. If the County decides to terminate the Swap or a termination event occurs and the County is obligated to terminate the Swap and the market conditions are such that the County is "out of money." In an "out of money" scenario the County would have to pay a termination payment to the counterparty (JP Morgan and PNC Bank) to terminate the Swap. Depending on market movements and conditions, the County could potentially owe the counterparty a significant termination payment.

Basis Swaps

Objective of the Basis Swap

The County entered into a two variable-to-variable basis swap transactions with the Counterparties in connection with the issuance of its General Obligation Notes, Series A of 2006 (the "2006A Notes") and also included \$11,480,000 of its outstanding General Obligation Bonds, Series C of 2003 (the "2003C Bonds"). The basis swaps effectively converted the interest rate payment amount from a fixed rate to a variable rate are effective June 1, 2013.

On December 11, 2006, the County entered into two variable-to variable basis swap transactions that relate to the County's outstanding 2006A Notes and 2003C Bonds, in the aggregate notional amount of \$100,000,000. As part of this transaction, the County received an up-front payment of \$1,500,000 from JP Morgan and \$1,008,000 from PNC Bank, which it used to close an operating budget gap for its 2006 calendar year.

County of Luzerne, Pennsylvania

Notes to Financial Statements

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Terms

Pursuant to the terms of the basis swap contracts, the County receives a variable interest rate equal to 67% of the 1-Month London Interbank Offered Rate ("LIBOR") and pays a variable rate to the counterparties (JP Morgan Chase Bank, N.A. and PNC) equal to 100% of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index rate. Payments are made semi-annually on April and November 1 and rates reset weekly. The basis swaps terminate on October 1, 2026. The 2003C Bonds mature on December 15, 2021 and the 2006A Notes mature on November 15, 2026.

The terms of the basis swaps are as follows:

Issue	Counterparty	Notional Amount	Effective Date	Variable Rate Received	Variable Rate Paid	Fair Value	Swap Termination	Counter-party Credit Rating
Series A of 2006	JP Morgan	\$ 60,000,000	6/1/2013	67% LIBOR	SIFMA	\$ (1,739,386)	10/1/2026	Aa3/A
Series A of 2006	PNC	<u>40,000,000</u>	6/1/2013	67% LIBOR	SIFMA	<u>(1,159,301)</u>	10/1/2026	A/A
Total		<u>\$ 100,000,000</u>				<u>\$ (2,898,687)</u>		

At December 31, 2012, the 67% LIBOR rate was 0.14% and the SIFMA rate was 0.13%.

Fair Value

At December 31, 2012, the basis swaps had an aggregate negative fair value of \$2,898,687, estimated using the zero-coupon method, 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.

The zero-coupon method of estimating fair value calculates the future net settlement payments required by the swap, assuming that current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit Risk

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

County of Luzerne, Pennsylvania

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December 31, 2012

The basis swap transaction exposes the County to credit (default) risk. Because the County currently has no bond credit rating, the counterparties (JP Morgan and PNC) have an additional potential termination event should the County not post the necessary amount of collateral to secure its obligations under the terms of the swaps. In the event the County cannot post the required amount of collateral, the counterparties will have the ability to obligate the County to terminate the swaps at the then current market rate. At December 31, 2012, the County has successfully posted the necessary collateral to secure the swaps.

The County's Master Swap Agreement contains netting provisions applicable to circumstances where the County enters into more than one derivative transaction with a single counterparty. Under these netting provisions, should one party become insolvent or otherwise default on its obligations, the close-out netting provisions permit the non-defaulting party to terminate all affected transactions and net any settlement amounts payable so that a single sum will be owed by, or owed to, the non-defaulting party.

Interest Rate Risk

The basis swap transaction exposes the County to interest rate risk. If the percentage of the 1-Month LIBOR rate received by the County is lower than the variable rate the County is paying the counterparties (JP Morgan and PNC) under the terms of the swap, the County would be obligated to make a periodic net swap payment to the counterparties - based on market conditions, the net swap payment due by the County to the counterparties could be significant.

Basis Risk

The County is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At December 31, 2012, the associated debt used a variable rate of interest based on 67% of the 1-Month LIBOR rate and the counterparty's payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

Termination Risk

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

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

9. Compensated Absences

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

Balance, January 1, 2012	\$ 4,077,115
Increase	1,311,174
Decrease	<u>(214,664)</u>
Balance, December 31, 2012	<u>\$ 5,173,625</u>

The County pays its compensated absences from the General Fund.

10. Pension Plans

Plan Description

The Luzerne 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 Luzerne County Employees' Retirement Board. The Plan is covered under the Commonwealth of Pennsylvania's Act 96 of 1971, as amended, commonly referred to as the County Pension law. The County Pension law provides for the creation, maintenance and operation of this plan. A copy of the Plan's financial statements may be obtained from the County Manager's office.

Membership of the Plan consisted of the following at January 1, 2013, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,150
Terminated plan members entitled to but not yet receiving benefits	239
Active plan members	<u>1,570</u>
Total	<u>2,959</u>
Number of participating employers	<u><u>1</u></u>

Each employee of Luzerne County was required to contribute 5% of their salary to the Plan. The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contributions requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania.

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

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

Annual required contribution	\$ 7,769,622
Interest on net pension asset	-
Adjustment to annual required contribution	-
	<hr/>
Annual pension cost	7,769,622
Contributions made	7,769,622
	<hr/>
Increase in net pension obligation	-
Net pension obligation, beginning of year	-
	<hr/>
Net pension obligation, end of year	<u>\$ -</u>

The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases ranging between 3% and 8%, and (c) cost-of-living adjustments provided at the discretion of the Luzerne County Employees' Retirement Board. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

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

Historical trend information for the Plan is presented below:

	<u>Annual Pension Cost (APC)</u>	<u>County Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/10	\$ 9,039,306	\$ 9,039,306	100%	\$ -
12/31/11	7,116,359	7,116,309	100%	-
12/31/12	7,769,622	7,769,622	100%	-

Information regarding the Plan can be obtained from the County.

11. Other Post Employment Benefits

Plan Description

The County's Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit plan administered by the County. The Plan provides postemployment medical and prescription benefits to eligible retirees. The Plan is unfunded and no financial report is prepared. The plan is authorized and under the control, maintenance and operation of the County Council. The benefits provided by the Plan include medical, prescription drug, vision, and life insurance provided to certain eligible individuals and their spouses.

Membership of the Plan consisted of the following at January 1, 2012, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	20
Active plan members	302
	<hr/>
Total	<u>322</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements
December 31, 2012

Funding Policy

The County pays all of the cost for Prison members who retired prior to January 1, 2013 with at least 20 years of service. For those prison retirees who retired prior to January 1, 2013 with less than 20 years of service pay a percentage of the premium ranging from 50% with 10 years of service to 5% with 19 years of service. The County Detectives pay \$100 per month.

The required contribution is determined pursuant to the requirements of GASB Statement No. 45. The Plan is financed on a pay-as-you-go basis. County Council has the authority to amend the Plan including changing the obligations of the Plan members and the County to contribute to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 477,602
Interest on net OPEB obligation	318,779
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	796,381
Contributions made (estimated)	<u>(196,918)</u>
Increase in net OPEB obligation	599,463
Net OPEB obligation, beginning of year	<u>7,491,862</u>
Net OPEB obligation, end of year	<u>\$ 8,091,325</u>

The net increase in OPEB obligation is recorded as a benefit expense within the accompanying statement of activities within the General Government - Corrections function in the amount of \$599,463.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2012 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	<u>\$ 796,381</u>	<u>24.73%</u>	<u>\$ 8,091,325</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation date, was as follows:

	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Total Unfunded Actuarial Liability (Asset) (c)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Annual Covered Payroll (d)</u>	<u>Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)</u>
Total	<u>\$ -</u>	<u>\$ 7,491,862</u>	<u>\$ 7,491,862</u>	<u>0%</u>	<u>\$ 15,953,734</u>	46.96%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of valuation and on the pattern of cost sharing between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.0% investment rate of return, which is the expected rate to be earned on the County's deposits. The health care cost trend rate for the County's Personal Choice plan was assumed to be 4.7% in 2013, 8.8% in 2014, 8.5% in 2015 reducing by 0.5% per year thereafter to an ultimate level of 5.0% per year. The health care cost trend rate for the County's Geisinger Health Plan was assumed to be 24.47% in 2013, 10.6% in 2014, 8.5% in 2015 reducing by 0.5% per year thereafter to an ultimate level of 5.0% per year. The unfunded actuarial accrued liability was recognized, in full, at January 1, 2012.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

12. Fund Balance Classifications

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

	General Fund	Luzerne County Office of Community Development	Health and Human Services Funds	Debt Service Fund	Capital Projects Fund	Flood Protection Authority	Non-Major Funds	Total
Nonspendable for:								
Prepaid expenses	\$ -	\$ -	\$ 63,931	\$ -	\$ -	\$ -	\$ 857,534	\$ 921,465
Notes receivable	1,807,802	-	-	-	-	-	-	1,807,802
Total nonspendable	<u>\$ 1,807,802</u>	<u>\$ -</u>	<u>\$ 63,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 857,534</u>	<u>\$ 2,729,267</u>
Restricted for:								
Grant programs	\$ -	\$ 1,732,987	\$ 66,830	\$ -	\$ -	\$ -	\$ 506,609	\$ 2,306,426
Liquid fuels	-	-	-	-	-	-	1,190,160	1,190,160
Emergency 911	-	-	-	-	-	-	1,712,408	1,712,408
Probation	-	-	-	-	-	-	1,870,500	1,870,500
Housing trust	-	-	-	-	-	-	2,386,874	2,386,874
Solid waste	-	-	-	-	-	-	2,391,440	2,391,440
Domestic relations	-	-	-	-	-	-	3,852,306	3,852,306
Loan programs	-	48,525,307	-	-	-	-	-	48,525,307
Debt service	-	-	-	6,101,310	-	-	-	6,101,310
Capital projects	-	-	-	-	22,270,243	3,616,614	-	25,886,857
Total restricted	<u>\$ -</u>	<u>\$ 50,258,294</u>	<u>\$ 66,830</u>	<u>\$ 6,101,310</u>	<u>\$ 22,270,243</u>	<u>\$ 3,616,614</u>	<u>\$ 13,910,297</u>	<u>\$ 96,223,588</u>
Assigned for:								
Human services	\$ -	\$ -	\$ 503,135	\$ -	\$ -	\$ -	\$ -	\$ 503,135
Flood protection	-	-	-	-	-	1,245,216	-	1,245,216
Total assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 503,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,245,216</u>	<u>\$ -</u>	<u>\$ 1,748,351</u>

13. Deficit Fund Balances

The General Fund has a net deficit of \$3,755,713 at December 31, 2012. The County anticipates future changes within revenues and tighter expenditure controls that will result in positive changes in fund balance in future years.

The Internal Service Fund has a net deficit of \$1,654,012 at December 31, 2012. This deficit results from the County electing to fund the minimum asset reserve required by the Commonwealth of Pennsylvania or self-insured entities for workers compensation.

County of Luzerne, Pennsylvania

Notes to Financial Statements

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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 workers' compensation risk, up to \$600,000 for injuries to employees. For risks greater than \$600,000 up to a limit of \$1,000,000, the County has purchased excess of loss insurance with a commercial insurance carrier. The County utilizes a third party administrator to administer all claims. 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At December 31, 2012 and 2011, the County has recorded a liability for claims incurred at their net present value of \$3,137,951 and \$3,388,284, respectively. This liability is calculated based on past loss experience and is discounted at a rate of 2.54% and 2.57% at December 31, 2012 and 2011, respectively. 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Balance, January 1	\$ 3,388,284	\$ 3,557,332
Claims incurred	1,003,537	1,289,952
Claims paid	<u>(1,253,870)</u>	<u>(1,459,000)</u>
Balance, December 31	<u>\$ 3,137,951</u>	<u>\$ 3,388,284</u>

The County has recorded an estimated liability for known claims, based on estimates of the ultimate cost of reported claims (including future claims adjustment expenses) as well as claims that have been incurred but not reported, using amounts as determined by an independent actuary. Adjustments to these claim liabilities are charged or credited to expense in the periods in which they are made.

During 2004, the County became self-funded for its employee healthcare benefits. All claims are budgeted and paid from the General Fund. As a hedge against catastrophic healthcare expense, stop-loss insurance is carried for eligible medical and prescription expenses. This coverage, which is on an individual basis, covers eligible medical and prescription expenses over \$200,000 but less than \$1,000,000 over the lifetime of a covered employee.

County of Luzerne, Pennsylvania

Notes to Financial Statements
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15. Interfund Balances/Transfers

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

	Due From Other Funds	Due To Other Funds
General Fund	\$ 6,899,826	\$ 4,351,688
Luzerne County Office of Community Development	8,072	8,072
Health and Human Services Funds	5,482,811	10,220,937
Capital Projects Fund	-	75,335
Flood Protection Authority	733,940	229,350
Non-Major Funds	2,244,203	483,470
	<hr/>	<hr/>
Total	\$ 15,368,852	\$ 15,368,852

The amounts due to the General Fund are generally for payroll. All of these items are expected to be repaid in 2012.

Interfund transfers in 2012 are summarized as follows:

	Transfers In	Transfers Out
General Fund:		
Health and Human Services Funds	\$ -	\$ 4,868,527
Debt Service Fund	-	22,384,457
Non-Major Funds - 911 Fund	700,000	-
Internal Service Fund	-	770,000
	<hr/>	<hr/>
Total General Fund	700,000	28,022,984
Health and Human Services Funds, General Fund	<hr/>	<hr/>
	4,868,527	-
Debt Service Fund, General Fund	<hr/>	<hr/>
	22,384,457	3,576,050
Capital Projects Fund, Non-Major Funds - Liquid Fuels Fund	<hr/>	<hr/>
	475,000	-
Flood Protection Authority, Debt Service Fund	<hr/>	<hr/>
	3,576,050	-
Non-Major Funds:		
General Fund - 911 Fund	-	700,000
Capital Projects Fund - Liquid Fuels Fund	-	475,000
	<hr/>	<hr/>
Total Non-Major Funds	-	1,175,000
Proprietary Fund, Internal Service Fund	<hr/>	<hr/>
	770,000	-
Totals	<hr/>	<hr/>
	\$ 32,774,034	\$ 32,774,034

County of Luzerne, Pennsylvania

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Transfers in to the Debt Service Fund (\$22,384,457) were used to fund the County's annual debt service payments from general real estate taxes collected. Transfers in to the General Fund (\$700,000) were used for debt service payments on emergency 9-1-1 equipment. Transfers in to the Capital Projects Fund (\$425,000) were used to fund the purchase of assets with grant proceeds received by the Liquid Fuels Fund, a nonmajor fund. Transfers in to the Flood Protection Authority (\$3,576,050) were used to fund the County's debt service payments on Flood Protection Authority outstanding indebtedness.

Transfers out of the General Fund included \$4,868,527 in operating subsidy for the Health and Human Services Funds and also a \$770,000 transfer to the internal service fund to cover claims payments made during the year.

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. Subsequent Events

In January 2013, the County issued \$18,000,000 in Tax and Revenue Anticipation Notes, comprised of its \$10,000,000 Tax and Revenue Anticipation Note, Series A of 2013 as a qualified tax-exempt obligation, bearing interest at a rate not to exceed 5% per annum, and its \$8,000,000 Federally Taxable Tax and Revenue Anticipation Note, Series B of 2013, bearing interest at a rate not to exceed 15% per annum. The outstanding balance on this note was repaid as of June 28, 2013.

In January 2014, the County issued its \$18,000,000 Tax and Revenue Anticipation Note, Series A of 2014 as a qualified tax-exempt obligation, bearing interest at a rate not to exceed 2.70% per annum, due on June 28, 2014.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

18. Restatements

During 2012, the County restated its previously issued December 31, 2011 financial statements to address and correct previous financial reporting and accounting policy issues, including the failure to adopt certain accounting standards, as discussed in Note 1, and to correct errors in account balances that had not been audited. The below information depicts the nature and effect of such restatements and their effect on assets, liabilities, and fund balance/net position.

Governmental Funds

The County's beginning governmental fund balances have been restated for the following reasons:

	General Fund	Luzerne County Office of Community Development	Health and Human Services Funds	Flood Protection Authority	Non-Major Governmental Funds	Total Governmental Funds	Component Unit - Visitor's Bureau
Fund Balance / Net Position at December 31, 2011	\$ 2,995,555	\$ 49,978,485	\$ 203,181	\$ 5,932,464	\$ 18,820,608	\$ 114,548,269	\$ 365,930
To include related entities:							
Area Agency on Aging	-	-	326,726	-	-	326,726	-
Mental Health / Developmental Services	-	-	156,461	-	-	156,461	-
Other	13,677	(9,500)	-	26,785	161,715	192,677	(20,760)
To record unearned revenue at January 1, 2012	-	-	-	(1,297,161)	-	(1,297,161)	-
To write-off uncollectable receivables	-	-	-	-	(4,699,866)	(4,699,866)	-
Deferred revenue	-	-	-	-	2,339,009	2,339,009	-
To adjust Agency Cash accounts	(374,189)	-	-	-	-	(374,189)	-
To write-off prior year payables not reversed	1,040,818	-	-	-	-	1,040,818	-
Total restatement	680,306	(9,500)	483,187	(1,270,376)	(2,199,142)	(2,315,525)	(20,760)
Fund Balance / Net Position as restated at December 31, 2011	\$ 3,675,861	\$ 49,968,985	\$ 686,368	\$ 4,662,088	\$ 16,621,466	\$ 112,232,744	\$ 345,170

The effect of the above restatements on the prior period change in fund balance/net position is not readily determinable.

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

The changes within the County's fund asset balance and fund liability balance are as follows:

Total assets, as previously reported, at December 31, 2011	\$ 168,059,436
Portion related to change in reporting entity:	
Area Agency on Aging assets	2,238,144
Mental Health/Developmental Services assets	6,565,000
Portion related to corrections of errors:	
Agency Cash Fund Account	(374,189)
Probation Fund assets	(4,699,866)
HOME Program assets	(9,500)
Solid Waste Recycling Fund assets	91
District Attorney activity	161,624
	<u>171,940,740</u>
Restated total assets at December 31, 2011	
Total liabilities, as previously reported, at December 31, 2011	53,511,166
Portion related to change in reporting entity:	
Area Agency on Aging liabilities	1,911,418
Mental Health/Developmental Services liabilities	6,408,539
Portion related to corrections of errors:	
Prior year entry errors	(1,054,494)
Unearned revenue	1,297,161
Benefit expense	(26,785)
Deferred revenue	(2,339,009)
	<u>59,707,996</u>
Restated total liabilities at December 31, 2011	
Fund Balance / Net Position as restated at December 31, 2011	<u>\$ 112,232,744</u>

Governmental Activities

The changes within the County's governmental activity assets, deferred outflows of resources, liabilities and net position are as follows:

Total assets, as previously reported, at December 31, 2011	\$ 550,820,092
Restatement for capital asset adjustments	(7,629,814)
Restatement for changes in reporting entity	9,507,340
Restatement for other error corrections	(3,507,013)
	<u>\$ 549,190,605</u>
Restated total assets at December 31, 2011	
Deferred outflows of resources, as previously reported at December 31, 2011	\$ -
Restatement for hedging derivative	19,344,286
	<u>19,344,286</u>
Restated deferred outflows of resources at December 31, 2011	<u>\$ 19,344,286</u>

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

Total liabilities, as previously reported, at December 31, 2011	\$ 335,847,362
Restatements for:	
Investment derivative	4,757,994
Other postemployment benefit	7,491,862
Hedging derivative	19,344,286
Compensated absences	(69,345)
Change in reporting entity	8,781,142
	<u>376,153,301</u>
Restated total liabilities at December 31, 2011	\$ 376,153,301
Total net assets, as previously reported, at December 31, 2011	\$ 214,972,730
Restatements for:	
Investment derivative fair value	(4,757,994)
Other postemployment benefit	(7,491,862)
Capital asset adjustments	(7,629,814)
Inclusion of Area Agency on Aging	496,731
Inclusion of Mental Health/Developmental Services	229,467
Office of Community Development - HOME Program	(9,500)
Flood Protection Authority:	
Unearned revenue	(1,297,161)
Expense doubling	26,785
Probation Fund:	
Uncollectible receivable	(4,699,866)
Deferred revenue	2,339,009
Agency fund cash	(374,189)
Compensated absences	(69,345)
Others	646,599
	<u>192,381,590</u>
Restated net assets at December 31, 2011 (January 1, 2012 Net Position)	\$ 192,381,590

19. Luzerne/Wyoming Counties Transportation Department

On January 1, 2012, the Luzerne County Transportation Authority assumed the assets, liabilities, and operations of the Luzerne/Wyoming Counties Transportation Department (the "Department"). The Department was formerly included in the County's financial reporting entity as a proprietary fund and had a December 31, 2011 ending net position of approximately \$2,300,000, which transferred to the Luzerne County Transportation Authority on January 1, 2012.

20. New Accounting Pronouncements

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

County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2012

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

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

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

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

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

County of Luzerne, Pennsylvania

Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund Budget And Actual Year Ended December 31, 2012

	General Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes	\$ 97,645,709	\$ 94,843,249	\$ (2,802,460)
Payments in-lieu of taxes	441,200	71,428	(369,772)
Intergovernmental	3,582,577	3,688,840	106,263
Charges for services	5,198,026	4,894,906	(303,120)
Licenses and permits	4,087,397	3,163,111	(924,286)
Fines and forfeits	1,423,200	1,446,549	23,349
Interest and rent	89,360	44,248	(45,112)
Contributions and other	1,000,731	1,307,374	306,643
Total revenue	113,468,200	109,459,705	(4,008,495)
Expenditures			
General government:			
Administration	8,397,398	7,654,186	743,212
Judicial	30,157,313	29,503,959	653,354
Corrections	26,922,802	31,366,561	(4,443,759)
Other	3,271,788	2,923,223	348,565
Public safety	1,743,266	2,457,157	(713,891)
Public works	4,156,005	4,082,041	73,964
Culture and recreation	66,614	70,948	(4,334)
Health and human services	1,527,347	1,541,818	(14,471)
Intergovernmental appropriations	9,745,461	9,838,418	(92,957)
Debt service, interest	-	129,984	(129,984)
Total expenditures	85,987,994	89,568,295	(3,580,301)
Excess (Deficiency) of Revenues Over Expenditures	27,480,206	19,891,410	(7,588,796)
Other Financing Sources (Uses)			
Transfers in	700,000	700,000	-
Transfers out	(28,180,206)	(28,022,984)	157,222
Total other financing sources (uses), net	(27,480,206)	(27,322,984)	157,222
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ -	\$ (7,431,574)	\$ (7,431,574)

County of Luzerne, Pennsylvania

Required Supplemental Pension Information

Unaudited

December 31, 2012

Schedule of Funding Progress - Pension

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

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

County Of Luzerne, Pennsylvania

Required Supplementary Information

Schedule of Funding Progress - Other Postemployment Benefits -

Unaudited

December 31, 2012

Schedule Of Funding Progress - Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
January 1, 2012	\$0	\$7,491,862	\$7,491,862	0%	\$15,953,734	46.96%

Note: The County adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* effective January 1, 2012 and recorded 100% of the Actuarial Accrued Liability as of January 1, 2012.