

COUNTY OF LUZERNE, PENNSYLVANIA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT

County Council
County of Luzerne, Pennsylvania
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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of 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, which collectively represent 100% of the assets, fund balance, and revenues of the Health and Human Services Fund and 17%, 4%, and 31%, respectively, of the assets, net position, and revenues of the Governmental Activities. In addition, we did not audit the financial statements of the Luzerne County Office of Community Development. This major fund represents 100% of the assets, fund balance, and revenues of the Luzerne County Office of Community Development and 24%, 39%, and 5%, 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 23%, 23%, and 20%, respectively, of the assets, fund balance, and revenues of the nonmajor funds and 3%, 1%, 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 98%, 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 represents 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, 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. 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 auditors' 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.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
Governmental Fund, General	Qualified
Governmental Fund, Office of Community Development	Unmodified
Governmental Fund, Health and Human Services	Qualified
Governmental Fund, Debt Service	Unmodified
Governmental Fund, Capital Projects	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on Governmental Activities, Major Governmental General Fund and Major Governmental Fund Health and Human Services

The independent auditors' report of other auditors on the 2017 financial statements of Luzerne County Children and Youth Services, an agency in the major governmental fund health and human services, contained a basis for qualified opinion paragraph. Certain detail accounting records and supporting data were not available for audit. Therefore, the component auditors were not able to obtain sufficient appropriate audit evidence about the amounts at which due from other governments and unearned revenues are recorded in the accompanying balance sheet – governmental funds and the statement of net position (\$1,675,000 and \$174,000, respectively) and the amount of intergovernmental revenue and health and human services operating grants and contributions are recorded in the accompanying statement of revenues, expenditures, and change in fund balances (deficit) – governmental funds and the statement of activities, respectively (\$725,000) and transfers in are recorded in the accompanying statement of revenues, expenditures, and change in fund balances (deficit) – governmental funds (\$174,000), as well as the related effects on fund balance and net position.

Certain supporting data were not available to support the due to agencies balances. Therefore, we were not able to obtain sufficient appropriate audit evidence about the amounts at which due to agencies is recorded in the accompanying balance sheet – governmental funds and the statement of net position (\$5,401,064), as well as the related effects on fund balance and net position.

Qualified Opinions

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matter described in the “Basis for Qualified Opinions Governmental Activities, Major General Fund and Major Governmental Fund Health and Human Services” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental funds general fund and health and human services of the County of Luzerne, Pennsylvania, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 aggregate discretely presented component units, the community development, debt service, and capital projects major governmental funds, and the aggregate remaining fund information of the County of Luzerne, Pennsylvania, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 5 through 14, the budgetary comparison information on page 80, the schedule of changes in net pension liability and related ratios on page 81, the schedule of employer contributions on page 82, and the schedule of funding progress for other postemployment benefits on page 83 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 the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
September 27, 2018

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

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, 2017 compared to the year ended December 31, 2016. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

Financial Highlights

Overall, the County's liabilities and deferred inflows of resources exceeds its assets and deferred outflows of resources \$137,277,377 at December 31, 2017.

General Fund revenues and other financing sources exceeded its expenses and other financing uses in 2017 by \$8,674,288. This decreased the General Fund deficit from \$7,979,549 at December 31, 2016 to a fund balance of \$694,679 at December 31, 2017.

During 2015, the County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is effective for years ended on or after June 30, 2015. This standard was designed 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 are provided by other entities. As required by GASB 68, a liability was recorded related to the unfunded portion of the County's cost sharing multiple employer defined benefit retirement plan, based on an actuarial valuation. The estimated net pension liability at December 31, 2017 was approximately \$83,473,736. The liability decreased approximately \$9,129,000 from January 1, 2017 to December 31, 2017. Refer to Note 11 for further details.

Luzerne County issued \$50,720,000 of General Obligation Refunding Bonds, Series of 2017 on October 19, 2017 under two series 2017A and 2017B. Proceeds of the 2017A Bonds were applied towards the advance refunding of Series A of 2008, funding of an energy conservation project and the payment of cost, fees and expenses related to issuing the 2017A Bonds. Proceeds of the 2017B Bonds were applied towards the advance refunding of Series B of 2008 and the payment costs, fees and expenses related to issuing the 2017B Bonds. Both series have fixed rates.

Luzerne County also issued \$38,365,000 of Guaranteed Lease Revenue Bonds, Series of 2017 on October 17, 2017 under two series 2017 and 2017A. Proceeds of the Bonds were applied towards the current refunding of Series of 2005, advance refunding of Series of 2008, advance refunding of Series and 2009, and the payment costs, fees and expenses related to issuing the 2017 Bonds. Both series have fixed rates.

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. The statement of net position reports all of the assets and liabilities of the government. The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in the net position 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 15-17 of this report.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

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, Luzerne County Office of Community Development, Health and Human Services Funds, 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 "Nonmajor".

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 80.

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

Fiduciary Funds

The County accounts for 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's operations.

The basic Fiduciary Fund financial statements can be found on pages 25-26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-79 of this report.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

**Governmental Activities Condensed Statement of Net Position
December 31, 2017 and 2016**

	2017	2016	Variance
ASSETS AND DEFERRED OUTFLOWS			
Current and Other Assets	\$ 142,021,198	\$ 136,940,093	\$ 5,081,105
Capital Assets, Net	80,339,413	73,777,857	6,561,556
Total Assets	222,360,611	210,717,950	11,642,661
Deferred Outflows of Resources	22,933,798	29,808,526	(6,874,728)
Total Assets and Deferred Outflows of Resources	245,294,409	240,526,476	4,767,933
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Current Liabilities	45,814,442	54,149,148	(8,334,706)
Long-Term and Other Liabilities	334,966,468	342,969,784	(8,003,316)
Total Liabilities	380,780,910	397,118,932	(16,338,022)
Deferred Inflows of Resources	1,790,876	189,867	1,601,009
NET POSITION			
Net Investment in Capital Assets	(53,954,791)	(65,901,382)	11,946,591
Restricted	46,584,478	92,378,817	(45,794,339)
Unrestricted	(129,907,064)	(183,259,758)	53,352,694
Total Net Position	\$ (137,277,377)	\$ (156,782,323)	\$ 19,504,946

Total assets of the Luzerne County primary government increased from \$210,717,950 at December 31, 2016 to \$222,360,611 at December 31, 2017. This amounts to an increase of \$11,642,661 or 5.5%, and was primarily the result of increases of cash, taxes and levee receivable, and capital assets.

Deferred outflows of resources decreased by \$6,874,728 as a result of the Pension decrease of \$11,137,362 and deferred bond refunding increase of \$4,262,634.

The County's total liabilities decreased by \$16,338,022 during 2017, which represents a 4.1% decrease from 2016 to 2017. This was primarily the result of decrease in accounts payable, net pension liability, and bonds outstanding.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

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

	2017	2016	Variance
GOVERNMENTAL ACTIVITIES			
Program Revenues:			
Charges for Services	\$ 11,281,981	\$ 10,778,494	\$ 503,487
Operating Grants and Contributions	100,671,185	104,379,869	(3,708,684)
General Revenues:			
Tax Levy for General Purposes, Net	121,479,792	116,743,934	4,735,858
Contributions and Other	8,902,165	1,970,656	6,931,509
Total Revenues	242,335,123	233,872,953	8,462,170
Expenses:			
General Government - Administrative	11,131,624	11,662,974	(531,350)
General Government - Judicial	33,158,194	31,738,702	1,419,492
General Government - Corrections	35,068,006	35,316,423	(248,417)
General Government - Other	3,246,636	4,285,222	(1,038,586)
Intergovernmental Appropriations	8,296,430	8,236,298	60,132
Public Safety	8,226,127	9,119,586	(893,459)
Public Works	5,045,449	6,551,631	(1,506,182)
Human Services	88,463,040	84,169,287	4,293,753
Cultural and Recreation	3,092,163	2,975,036	117,127
Community and Economic Development	11,260,290	15,640,718	(4,380,428)
Unallocated Depreciation	3,857,119	5,896,051	(2,038,932)
Interest on Long-Term Debt	11,984,879	12,328,028	(343,149)
Total Expenses	222,829,957	227,919,956	(5,089,999)
CHANGES IN NET POSITION	19,505,166	5,952,997	13,552,169
Net Position - Beginning	(156,782,543)	(162,735,320)	5,952,777
NET POSITION - ENDING	\$ (137,277,377)	\$ (156,782,323)	\$ 19,504,946

Operating grants and contributions decreased approximately \$3,700,000 due to a decrease in grant funding received and utilized within the Luzerne County Office of Community Development (\$3,700,000) and a decrease in PennDot funding (\$2,000,000) compared to prior year.

The majority of the increase in tax levy for general purposes, net was caused by an increase in the Millage rate from 5.745 in 2016 to 5.975 in 2017. The net increase was approximately \$4,700,000 for 2017.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

General government – judicial expenses increased approximately \$1,400,000 from 2016 to 2017 primarily because of increases in amounts paid for wages of approximately \$850,000.

Public works expenses decreased approximately \$1,500,000 from 2016 to 2017 due to a decrease in funding from the Department of Transportation due to fewer projects in 2017 compared to 2016.

Human service expenses increased by approximately \$4,200,000 from 2016 to 2017 due to fluctuations in programs and funding received/available for various programs.

Community and economic development expenses decreased by approximately \$4,400,000 from 2016 to 2017 due to a decrease in funding from the community development block grant program.

Unallocated depreciation expense decreased by approximately \$2,000,000 primarily related to disposals of assets in 2016 and assets becoming fully depreciated in 2016.

**Financial Analysis of the Funds
General Fund (Major Fund)**

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

	2017 Amount	2016 Amount	Increase (Decrease)	% Change
Taxes	\$ 117,839,445	\$ 114,235,082	\$ 3,604,363	3.16%
Payments in Lieu of Taxes	262,659	265,667	(3,008)	(1.13)
Intergovernmental	1,159,028	1,372,499	(213,471)	(15.55)
Charges for Service	5,393,577	4,635,006	758,571	16.37
Licenses and Permits	3,531,099	3,793,743	(262,644)	(6.92)
Fines and Forfeits	1,194,156	1,036,489	157,667	15.21
Interest and Rent	248,881	272,643	(23,762)	(8.72)
Contributions and Other	4,780,347	656,805	4,123,542	627.82
Transfers In	153,409	1,868,439	(1,715,030)	(91.79)
Total Revenue	<u>\$ 134,562,601</u>	<u>\$ 128,136,373</u>	<u>\$ 6,426,228</u>	<u>5.02%</u>

Total revenue in the General Fund increased by \$6,426,228 or approximately 5.02% from 2016 to 2017.

Tax revenue increased \$3,604,363 as a result of the increase in Millage in fiscal year 2017 to 5.975 from 5.745 in 2016.

Contributions and other revenue increased \$4,123,542 the increase is primarily due to the \$4M settlement of a multiyear lawsuit against neighboring Lackawanna County over the sale of the region's AAA baseball franchise.

For fiscal year 2016, transfers in was primarily the amount of revenue that Probation contributes to the General Fund as reimbursement for General Fund fronted expenses. This amount was reclassified in fiscal year 2017 to a reduction in the related expense accounts within the general fund.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

General Fund (Major Fund)

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

	2017 Amount	2016 Amount	Increase (Decrease)	% Change
General Government:				
Administration	\$ 10,974,575	\$ 9,058,489	\$ 1,916,086	21.15%
Judicial	31,384,367	30,275,146	1,109,221	3.66
Corrections	33,417,412	33,758,641	(341,229)	(1.01)
Other	4,365,374	4,095,892	269,482	6.58
Public Safety	953,722	864,224	89,498	10.36
Public Works	4,577,845	4,119,960	457,885	11.11
Human Services	656,572	679,085	(22,513)	(3.32)
Debt Service	169,487	299,461	(129,974)	(43.40)
Payments to Related Agencies	8,296,430	8,236,298	60,132	0.73
Transfers	31,092,589	35,373,992	(4,281,403)	(12.10)
 Total Expenses	 <u>\$ 125,888,373</u>	 <u>\$ 126,761,188</u>	 <u>\$ (872,815)</u>	 <u>-0.69%</u>

Total expenses in the General Fund increased by \$872,815 or 0.69% from 2016 to 2017.

General government administration increased by approximately \$1,916,000 from 2016 to 2017 as a result of a decrease in the indirect Cost allocation plan and a reclassification of transfers to the internal service fund to administration expense in fiscal year 2017.

General government judicial increased by approximately \$1,109,000 from 2016 to 2017 major items include an increase of Sheriff overtime of \$360,000 this was in General Admin in 2016 and an increase in District Courts of \$350,000 related to Central Courts

Transfers decreased by approximately \$4,281,403 from 2016 to 2017 due to a decrease in debt service payments and a reclassification of transfers to the internal service fund to administrative expense.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

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 80.

The County's actual revenues for the General Fund for the year ended December 31, 2017 were \$443,252 less than the final budget. Of this amount, intergovernmental accounted for a decrease of approximately \$1,371,882, offset by an increase in fines and forfeits of approximately \$702,881 and an increase in licenses and permits of approximately \$494,007.

The County's actual expenditures for the year ended December 31, 2017 were \$632,643 less than was anticipated in the final budget. Of this amount, general government – judicial was approximately \$1,852,000 less than budget, general government – corrections was approximately \$1,218,000 less than budget, debt service, interest was approximately \$1,349,000 less than budget offset by general government – administration was approximately \$3,906,777 more than budget.

The overall General Fund had a positive overall budgetary variance of \$8,674,228.

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 decreased by \$19,427 from 2016 to a balance of \$46,500,329 at December 31, 2017, 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 \$5,672,585 at December 31, 2017. This is an increase of \$1,052,868 from December 31, 2016. This increase is a result of an increase in intergovernmental revenue in the current year.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

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. The Debt Service fund balance amounted to \$4,174 at December 31, 2017, a \$6,097,237 decrease from December 31, 2016 and is comprised of a mandatory debt service reserve account.

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 increased by \$4,655,593 for the year ended December 31, 2017 to \$16,808,168 at December 31, 2017 as new bond proceeds for capital projects were received.

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, 2017 were \$1,416,499.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of \$2,191,614 as of December 31, 2017. This is an increase of \$238,244 in the fund deficit of \$2,429,858 reported at December 31, 2016.

Pension Trust Fund

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$20,608,254 during 2017 resulting in Plan net position of \$240,015,245 at December 31, 2017. Plan net position was \$219,406,991 at December 31, 2016.

Plan contributions by members amounted to \$4,027,926 and \$3,856,932 in 2017 and 2016, respectively. Benefits paid to retired members were \$18,047,457 and \$16,595,196 in 2017 and 2016, respectively.

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,617,088 in that role as of December 31, 2017.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

Capital Assets

The County's investment in capital assets at December 31, 2017 and 2016, net of accumulated depreciation, was \$80,339,413 and \$73,777,857 for its governmental activities, respectively. Capital assets consist primarily of land, buildings, equipment and infrastructure. The following is a summary of capital assets at December 31, 2017 and 2016:

Capital Assets, Governmental Activities

December 31, 2017			
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	71,300,928	43,059,771	28,241,157
Airport	668,061	271,603	396,458
Land Improvements	528,339	26,707	501,632
Buildings and Improvements	81,137,206	42,848,522	38,288,684
Machinery and Equipment	22,134,055	18,267,028	3,867,027
Construction-in-Process	4,760,320	-	4,760,320
	\$ 184,813,044	\$ 104,473,631	\$ 80,339,413
Total County-Wide			
December 31, 2016			
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	63,672,160	42,084,666	21,587,494
Airport	668,062	246,365	421,697
Land Improvements	368,011	20,279	347,732
Buildings and Improvements	79,271,765	40,863,668	38,408,097
Machinery and Equipment	21,692,042	18,491,077	3,200,965
Construction-in-Process	5,527,737	-	5,527,737
	\$ 175,483,912	\$ 101,706,055	\$ 73,777,857
Total County-Wide			

Detailed information about the County's capital assets can be found in Note 7 within the accompanying notes to the financial statements.

Long-Term Debt

As of December 31, 2017, the County's net general obligation debt was \$256,800,530 net of related discount and premium and deferred loss on refunding. Detailed information about the County's outstanding debt obligations can be found in Note 8 within the accompanying notes to the financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

Economic Condition and Outlook

Luzerne County's 2017 results of operations is the third consecutive year of budget vs actual General Fund surpluses. County Administration and County Council have made improvements in both the tax rate and budgeting in the past three years.

Economic Outlook (Negative General Fund balance)

The 2017 surplus is primarily of one time revenues from the \$4M baseball lawsuit settlements, and almost \$2.4M debt service savings, after making two ARC payments in one calendar year. The County payed the 2016 expense in May 2017 and the 2017 expense in 2017 with savings from the refinancing. The County is also making quarterly retirement payments on the ARC for 2018 to remain current.

Management knows that the path to a stable future includes changes to major expenditure outlays, primarily debt service, which constitutes more than 20% of the General Fund expenditure budget.

The County returned to investment grade in 2017 with a Standard and Poor's rating of BBB-.

This is the third year of a positive General Fund positive variance and the County will continue toward the path of fiscal stability by both monitoring revenue and cutting expenditures where applicable without cutting customer service to the residents of Luzerne County. County Administration should have a 5% surplus at a minimum or approximately \$6.7M fund balance based on the 2017 general fund budget.

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, Pennsylvania 18711.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>Governmental Activities</u>	<u>Component Units</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 51,415,914	\$ 25,202,492
Restricted Cash and Investments	1,402,328	-
Current Portion of Notes Receivable	4,778,311	-
Accounts Receivable, Net	4,327,413	11,069,484
Inventory	-	582,384
Due from Governments, Net	17,718,812	14,548
Due from Component Units	16,331	-
Taxes and Levee Receivable, Net	12,256,267	-
Prepaid Expenses	175,356	-
Other Assets	-	6,536
Total Current Assets	92,090,732	36,875,444
CAPITAL ASSETS, NET	80,339,413	40,019,508
ASSETS RESTRICTED FOR CAPITAL PROJECTS AND DEBT SERVICE	17,578,806	-
NOTES RECEIVABLE	32,351,660	-
OTHER NONCURRENT ASSETS	-	38,768
INVESTMENTS	-	10,275,709
Total Assets	222,360,611	87,209,429
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Bond Refunding	12,456,871	-
Pension	10,476,927	3,197,462
Total Deferred Outflows of Resources	22,933,798	3,197,462
Total Assets and Deferred Outflows of Resources	\$ 245,294,409	\$ 90,406,891

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>Governmental Activities</u>	<u>Component Units</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 24,423,357	\$ 3,226,621
Unpaid Claims Reserve	3,608,113	-
Accrued Interest Expense	1,102,697	-
Current Portion of Long-Term Liabilities:		
Bonds and Notes Payable	9,690,000	128,230
Compensated Absences	61,781	370,345
Due to Other Governments	459,095	-
Due to Agencies	5,401,064	-
Unearned Revenues	1,068,335	634,058
Total Current Liabilities	<u>45,814,442</u>	<u>4,359,254</u>
NONCURRENT LIABILITIES		
Bonds and Notes Payable, Net	234,653,659	2,334,302
Other Postemployment Benefits	10,017,034	15,689,849
Advance Swap Payment	1,106,470	-
Investment Derivative - Pay Variable/Receive Variable Basis Swap	1,070,048	-
Net Pension Liability	83,473,736	15,286,092
Compensated Absences	4,645,521	1,481,381
Total Noncurrent Liabilities	<u>334,966,468</u>	<u>34,791,624</u>
 Total Liabilities	 380,780,910	 39,150,878
DEFERRED INFLOWS OF RESOURCES		
Pension	1,790,876	1,438,604
NET POSITION		
Net Investment in Capital Assets	(53,954,791)	37,584,803
Restricted	46,584,478	16,479,154
Unrestricted	<u>(129,907,064)</u>	<u>(4,246,548)</u>
Total Net Position	<u>(137,277,377)</u>	<u>49,817,409</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 245,294,409</u>	 <u>\$ 90,406,891</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Functions / Programs	Expenses	Program Revenues			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	\$ 11,131,624	\$ 3,735,306	\$ 2,353,184	\$ -	\$ (5,043,134)	
Judicial	33,158,194	1,463,592	-	-	(31,694,602)	
Corrections	35,068,006	906,154	-	-	(34,161,852)	
Other	3,246,636	3,457,979	-	-	211,343	
Intergovernmental Appropriations	8,296,430	-	-	-	(8,296,430)	
Public Safety	8,226,127	122,109	8,411,448	-	307,430	
Public Works	5,045,449	1,139,736	2,665,729	-	(1,239,984)	
Health and Human Services	88,463,040	457,105	76,186,799	-	(11,819,136)	
Culture and Recreation	3,092,163	-	-	-	(3,092,163)	
Community and Economic Development	11,260,290	-	11,054,025	-	(206,265)	
Unallocated Depreciation	3,857,119	-	-	-	(3,857,119)	
Interest on Long-Term Debt	11,984,879	-	-	-	(11,984,879)	
Total Governmental Activities	<u>\$ 222,829,957</u>	<u>\$ 11,281,981</u>	<u>\$ 100,671,185</u>	<u>\$ -</u>	<u>(110,876,791)</u>	
Component Units						
Luzerne County Community College	\$ (73,024,823)	\$ 29,053,169	\$ 40,069,444	\$ 2,349,048		\$ (1,553,162)
Luzerne County Visitors Bureau	(601,102)	45,380	572,826	-		17,104
Total Component Units	<u>\$ (73,625,925)</u>	<u>\$ 29,098,549</u>	<u>\$ 40,642,270</u>	<u>\$ 2,349,048</u>		<u>(1,536,058)</u>
General Revenues and Transfers						
Property Taxes Levied for General Purposes, Net					121,479,792	-
Interest Revenue					319,298	192,801
Grants, Contributions, and Other Revenue not Restricted to Specific Programs					6,662,926	-
Miscellaneous Revenue					19,767	-
Gain on Disposal of Capital Assets					-	10,309
Change in Fair Value of Investment Derivative					763,372	-
Amortization of Advance Swap Payment					126,454	-
Transfers					1,010,348	-
Total General Revenues					<u>130,381,957</u>	<u>203,110</u>
Change in Net Position					19,505,166	(1,332,948)
Net Position - Beginning					(156,782,543)	51,150,357
Net Position - Ending					<u>\$ (137,277,377)</u>	<u>\$ 49,817,409</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General Fund	Luzerne County Office of Community Development	Health and Human Services Funds	Debt Service Funds	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 9,896,749	\$ 18,996,294	\$ 6,745,840	\$ -	\$ -	\$ 15,763,380	\$ 51,402,263
Restricted Cash and Investments	-	-	221,935	4,174	17,574,632	-	17,800,741
Accounts Receivable	2,064,127	-	484,237	-	-	1,739,160	4,287,524
Due from Other Funds	15,380,032	-	8,835,588	-	-	5,112,154	29,327,774
Notes Receivable	1,807,802	35,322,169	-	-	-	-	37,129,971
Due from Other Governments, Net	347,137	41,625	15,421,086	-	-	1,908,964	17,718,812
Due from Component Unit	16,338	-	-	-	-	-	16,338
Prepaid Expenses	80,710	-	94,646	-	-	-	175,356
Taxes Receivable, Net	12,256,267	-	-	-	-	-	12,256,267
Total Assets	\$ 41,849,162	\$ 54,360,088	\$ 31,803,332	\$ 4,174	\$ 17,574,632	\$ 24,523,658	\$ 170,115,046
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICIT)							
LIABILITIES							
Accounts Payable and Accrued Liabilities	\$ 8,973,249	\$ 6,475	\$ 10,432,970	\$ -	\$ 766,464	\$ 1,794,002	\$ 21,973,160
Accrued Payroll and Benefits	2,390,821	-	-	-	-	-	2,390,821
Due to Agencies	5,401,064	-	-	-	-	-	5,401,064
Due to Other Funds	13,585,288	38,047	14,269,052	-	-	1,435,387	29,327,774
Due to Other Governments	368,770	-	17,066	-	-	73,259	459,095
Other Payables	215,151	-	-	-	-	-	215,151
Compensated Absences	-	-	61,781	-	-	-	61,781
Unearned Revenues	-	-	1,095,132	-	-	-	1,095,132
Total Liabilities	30,934,343	44,522	25,876,001	-	766,464	3,302,648	60,923,978
DEFERRED INFLOWS OF RESOURCES							
Unavailable Tax Revenue	10,220,140	-	-	-	-	-	10,220,140
Unavailable Revenue - Loans	-	7,815,237	-	-	-	-	7,815,237
Unavailable Revenue - Due from Related Party	-	-	254,746	-	-	-	254,746
Total Deferred Inflows of Resources	10,220,140	7,815,237	254,746	-	-	-	18,290,123
FUND BALANCES (DEFICIT)							
Nonspendable	80,710	27,502,569	94,646	-	-	-	27,677,925
Restricted	1,807,802	18,997,760	5,577,939	4,174	16,808,168	12,199,682	55,395,525
Assigned	-	-	-	-	-	9,210,358	9,210,358
Unassigned	(1,193,833)	-	-	-	-	(189,030)	(1,382,863)
Total Fund Balances (Deficit)	694,679	46,500,329	5,672,585	4,174	16,808,168	21,221,010	90,900,945
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 41,849,162	\$ 54,360,088	\$ 31,803,332	\$ 4,174	\$ 17,574,632	\$ 24,523,658	\$ 170,115,046

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balances (Deficit) - Governmental Funds		\$ 90,900,945
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.		(2,191,614)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		80,339,413
Property taxes receivable will be collected in the future, but are not available to pay for the current period's expenditures and therefore are not recognized as revenue on the governmental fund financial statements.		10,220,140
Unavailable 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 Area Agency on Aging.		8,069,982
Deferred outflows of resources related to the net pension liability included in the statement of net position.		10,476,927
Deferred inflows of resources related to the net pension liability included in the statement of net position.		(1,790,876)
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	\$ 244,343,659	
Deferred Bond Refunding	(12,456,871)	
Other Postemployment Benefits	10,017,034	
Advance Swap Payment	1,106,470	
Compensated Absences	4,645,521	
Net Pension Liability	<u>83,473,736</u>	(331,129,549)
The fair value of derivative instruments used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		(1,070,048)
Accrued interest payable is included in the statement of net position.		<u>(1,102,697)</u>
Total Net Position - Governmental Activities		<u><u>\$ (137,277,377)</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES (DEFICIT) – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017**

	General Fund	Luzerne County Office of Community Development	Health and Human Services Funds	Debt Service Funds	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
Revenues							
Property Taxes	\$ 117,839,445	\$ -	\$ -	\$ -	\$ -	\$ 2,886,949	\$ 120,726,394
Payments in Lieu of Taxes	262,659	-	-	-	-	-	262,659
Intergovernmental	1,159,028	9,963,680	72,857,731	-	-	15,044,388	99,024,827
Charges for Service	5,393,577	875,847	978,370	-	-	807,145	8,054,939
Licenses and Permits	3,531,099	-	-	-	-	756,764	4,287,863
Fines and Forfeits	1,194,156	-	-	-	-	-	1,194,156
Interest and Rent	248,881	214,498	8,572	2,267	33,147	54,172	561,537
Contributions and Other	4,780,347	-	139,099	-	-	639,443	5,558,889
Total Revenues	134,409,192	11,054,025	73,983,772	2,267	33,147	20,188,861	239,671,264
Expenditures							
Current:							
General Government:							
Administration	10,974,575	-	1,002,135	-	-	-	11,976,710
Judicial	31,384,367	-	-	-	-	5,905,509	37,289,876
Corrections	33,417,412	-	-	-	-	-	33,417,412
Other	4,365,374	-	-	-	-	-	4,365,374
Public Safety	953,722	-	-	-	-	8,854,131	9,807,853
Public Works	4,577,845	-	-	-	-	4,498,601	9,076,446
Community and Economic Development	-	11,073,452	-	-	-	-	11,073,452
Culture and Recreation	-	-	-	-	-	3,092,163	3,092,163
Health and Human Services	656,572	-	80,567,418	-	-	-	81,223,990
Intergovernmental Appropriations	8,296,430	-	-	-	-	-	8,296,430
Debt Service:							
Principal	-	-	-	10,085,000	-	-	10,085,000
Interest	169,487	-	-	10,296,921	-	-	10,466,408
Debt Issuance Costs	-	-	-	1,957,003	-	-	1,957,003
Capital Outlay	-	-	-	-	3,285,665	-	3,285,665
Total Expenditures	94,795,784	11,073,452	81,569,553	22,338,924	3,285,665	22,350,404	235,413,782
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	39,613,408	(19,427)	(7,585,781)	(22,336,657)	(3,252,518)	(2,161,543)	4,257,482
OTHER FINANCING SOURCES (USES)							
Transfers In	153,409	-	8,638,649	21,369,365	-	1,941,514	32,102,937
Transfers Out	(31,092,589)	-	-	-	-	-	(31,092,589)
Issuance of Refunding Bonds	-	-	-	81,176,889	7,908,111	-	89,085,000
Premiums on Issuance of Refunding Bonds	-	-	-	12,405,363	-	-	12,405,363
Payment to Refunded Bond Escrow Agent	-	-	-	(88,029,057)	-	-	(88,029,057)
Debt Service-Principal	-	-	-	(10,683,136)	-	-	(10,683,136)
Total Other Financing Sources (Uses)	(30,939,180)	-	8,638,649	16,239,424	7,908,111	1,941,514	3,788,518
NET CHANGE IN FUND BALANCES (DEFICIT)	8,674,228	(19,427)	1,052,868	(6,097,233)	4,655,593	(220,029)	8,046,000
Fund Balances (Deficit) Beginning	(7,979,549)	46,519,756	4,619,717	6,101,407	12,152,575	21,441,039	82,854,945
FUND BALANCES - ENDING	\$ 694,679	\$ 46,500,329	\$ 5,672,585	\$ 4,174	\$ 16,808,168	\$ 21,221,010	\$ 90,900,945

See accompanying 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, 2017**

Total Net Change in Fund Balances (Deficit) - Governmental Funds	\$	8,046,000
Amounts reported for governmental activities in the statement of activities are difference because:		
Net income of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.		238,244
Capital asset additions are reported as expenditures in the governmental funds.		10,695,088
Depreciation expense on capital assets is reported in the statement of activities.		(3,927,615)
Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities. This is the loss on disposal of assets recorded during 2017.		(205,917)
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. Unavailable tax revenues increased by the amount during the year.		694,946
Nonexchange revenue is only recognized when measurable and available. Therefore, nonexchange balances collected after 60 days of the end of the year are not recognized as revenue until the period collected.		(667,195)
The repayment of bond and note principal is an other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The effect of these activities is as follows:		
Debt Principal Payment	\$ 10,085,000	
Bond Proceeds	(81,176,889)	
Payment to Refunded Bond	98,712,193	
Net Change in Bond Premiums, Discounts and Deferred Gain or Loss	298,996	
Amortization of Advance Swap Payment	126,454	
Change in Accrued Interest on Bonds Payable	139,536	28,185,290
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.		763,372
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 and contributions made in relation to the annual required contribution (ARC).		(227,280)
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.		(167,160)
In the statement of activities, certain operating expenses - pension, are measured by the amounts contributed towards future retirement during the current year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the change in the net pension liability and deferred outflow and inflow of resources during the current period.		(3,609,133)
Change in Net Position of Governmental Activities	\$	<u><u>39,818,640</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF NET DEFICIT – PROPRIETARY FUND
DECEMBER 31, 2017**

	<u>Internal Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 13,651
Restricted Investments	1,180,379
Other Receivables	<u>222,469</u>
Total Assets	<u><u>\$ 1,416,499</u></u>
LIABILITIES AND NET DEFICIT	
UNPAID CLAIMS RESERVE	\$ 3,608,113
NET DEFICIT	
Unrestricted	<u>(2,191,614)</u>
Total Liabilities and Net Deficit	<u><u>\$ 1,416,499</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET DEFICIT – PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>Internal Service Fund</u>
OPERATING REVENUES	
Charges for Services	\$ 1,515,533
OPERATING EXPENSES	
Workers' Compensation Claims	<u>1,278,948</u>
Total Operating Expenses	<u>1,278,948</u>
OPERATING INCOME	236,585
NONOPERATING REVENUES	
Interest Income	<u>1,659</u>
Total Nonoperating Revenues	<u>1,659</u>
CHANGE IN NET POSITION	238,244
Net Deficit - Beginning of Year	<u>(2,429,858)</u>
NET DEFICIT - END OF YEAR	<u><u>\$ (2,191,614)</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2017**

	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 1,369,820
Cash Payments for Insurance Claims	<u>(1,555,344)</u>
Net Cash Used by Operating Activities	(185,524)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	1,659
Proceeds from Sale of Investments	<u>148,434</u>
Net Cash Provided by Investing Activities	<u>150,093</u>
 NET DECREASE IN CASH	(35,431)
 Cash - Beginning of Year	<u>49,082</u>
 CASH - END OF YEAR	<u><u>\$ 13,651</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ 236,585
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Other Receivables	(145,713)
Accounts Payable	(7,287)
Unpaid Claims Reserve	<u>(269,109)</u>
Net Cash Used by Operating Activities	<u><u>\$ (185,524)</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017**

	Pension Trust Fund	Agency Fund	Total
ASSETS	<u> </u>	<u> </u>	<u> </u>
Cash and Cash Equivalents	\$ 12,309,804	\$ 5,617,088	\$ 17,926,892
Accrued Interest	529,329	-	529,329
Investments, at Fair Value:			
U.S. Government Securities	17,485,750	-	17,485,750
Mutual Funds	78,486,845	-	78,486,845
Domestic Common Stock	17,405,824	-	17,405,824
International Stock	14,659,832	-	14,659,832
Exchange Traded Funds	39,469,806	-	39,469,806
Corporate Bonds	41,983,421	-	41,983,421
Mutual Bonds	7,356,940	-	7,356,940
Alternative Investments	10,327,694	-	10,327,694
Total Investments	<u>227,176,112</u>	<u>-</u>	<u>227,176,112</u>
 Total Assets	 <u>\$ 240,015,245</u>	 <u>\$ 5,617,088</u>	 <u>\$ 245,632,333</u>
 LIABILITIES AND NET POSITION			
LIABILITIES			
Funds Held in Fiduciary Capacity	\$ -	\$ 5,617,088	\$ 5,617,088
NET POSITION			
Net Position Restricted for Pension	<u>240,015,245</u>	<u>-</u>	<u>240,015,245</u>
 Total Liabilities and Net Position	 <u>\$ 240,015,245</u>	 <u>\$ 5,617,088</u>	 <u>\$ 245,632,333</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017**

	<u>Pension Trust Fund</u>
ADDITIONS	
CONTRIBUTIONS	
Employer	\$ 12,063,850
Plan Members	<u>4,027,926</u>
Total Contributions	16,091,776
INVESTMENT INCOME	
Net Appreciation in Fair Value of Investments	8,482,135
Realized Gain	10,518,579
Interest	2,246,491
Dividends	3,102,768
Investment Expense	(742,456)
Miscellaneous	<u>71,753</u>
Net Investment Income	23,679,270
Total Additions	39,771,046
DEDUCTIONS	
Benefits Paid	18,047,457
Death Benefits Paid	487,128
Participant Contributions Refunded	513,850
Administrative Expenses	<u>114,357</u>
Total Deductions	19,162,792
CHANGE IN NET POSITION	20,608,254
Net Position - Beginning of Year	<u>219,406,991</u>
NET POSITION - END OF YEAR	<u><u>\$ 240,015,245</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
COMBINING BALANCE SHEET – DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2017**

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 24,530,542	\$ 671,950	\$ 25,202,492
Accounts Receivable	11,055,784	13,700	11,069,484
Inventory	582,384	-	582,384
Due from Other Governments	-	14,548	14,548
Other Assets	6,536	-	6,536
Total Current Assets	<u>36,175,246</u>	<u>700,198</u>	<u>36,875,444</u>
LONG-TERM INVESTMENTS	10,275,709	-	10,275,709
CAPITAL ASSETS, NET	40,019,508	-	40,019,508
OTHER ASSETS	38,768	-	38,768
Total Assets	86,509,231	700,198	87,209,429
DEFERRED OUTFLOWS OF RESOURCES			
Pension	3,197,462	-	3,197,462
Total Assets and Deferred Outflows of Resources	<u>\$ 89,706,693</u>	<u>\$ 700,198</u>	<u>\$ 90,406,891</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 696,753	\$ 31,755	\$ 728,508
Accrued Expenses	2,498,113	-	2,498,113
Current Portion of Long-Term Debt	128,230	-	128,230
Current Portion of Compensation Absences	370,345	-	370,345
Unearned Revenue	634,058	-	634,058
Total Current Liabilities	<u>4,327,499</u>	<u>31,755</u>	<u>4,359,254</u>
LONG-TERM DEBT	2,334,302	-	2,334,302
COMPENSATED ABSENCES	1,481,381	-	1,481,381
LIABILITY FOR POST RETIREMENT BENEFITS	15,689,849	-	15,689,849
NET PENSION LIABILITY	15,286,092	-	15,286,092
Total Liabilities	39,119,123	31,755	39,150,878
DEFERRED INFLOWS OF RESOURCES			
Pension	1,438,604	-	1,438,604
NET POSITION			
Net Investment in Capital Assets	37,584,803	-	37,584,803
Restricted	16,479,154	-	16,479,154
Unrestricted	(4,914,991)	668,443	(4,246,548)
Total Net Position	<u>49,148,966</u>	<u>668,443</u>	<u>49,817,409</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 89,706,693</u>	<u>\$ 700,198</u>	<u>\$ 90,406,891</u>

See accompanying 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, 2017**

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
REVENUES			
Charges for Services	\$ 29,053,169	\$ 45,380	\$ 29,098,549
Interest Income	192,406	395	192,801
Operating Grants and Contributions	40,069,444	572,826	40,642,270
Gain on Sale of Assets	10,309	-	10,309
Capital Grants and Contributions	2,349,048	-	2,349,048
Total Revenues	<u>71,674,376</u>	<u>618,601</u>	<u>72,292,977</u>
EXPENSES			
Culture and Recreation	-	601,102	601,102
Education and General	69,480,972	-	69,480,972
Debt Service	144,928	-	144,928
Unallocated Depreciation and Amortization	3,398,923	-	3,398,923
Total Expenses	<u>73,024,823</u>	<u>601,102</u>	<u>73,625,925</u>
CHANGE IN NET POSITION	(1,350,447)	17,499	(1,332,948)
Net Position - Beginning of Year	<u>50,499,413</u>	<u>650,944</u>	<u>51,150,357</u>
NET POSITION - END OF YEAR	<u>\$ 49,148,966</u>	<u>\$ 668,443</u>	<u>\$ 49,817,409</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 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. Beginning January 1, 2012, the County began operating under a Home Rule Charter and Administrative Code. An elected 11-member County Council serves as the legislative branch with an appointed County Manager overseeing the Executive Branch of the County. The County 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Amounts paid to acquire capital assets are capitalized in the government-wide financial statements, rather than reported as an expense/expenditure. Proceeds from the issuance of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as financing sources. Amounts paid to reduce long-term indebtedness are reported as a reduction of the liability, rather than expense/expenditure in the government-wide financial statements.

Fund Financial Statements

Government 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, grants, 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

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 (Fiscal Programs) are blended component unites of the County (Note 2) and 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.

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

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

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 8%, 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 is required to have a long-range operational, fiscal, and capital plan.

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 and Capital Projects are restricted for the funds restrictive purpose.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1,066,000 at December 31, 2017.

The Hotel Room Rental Tax Fund, a nonmajor fund, charges a rental fee for hotel occupancy. At December 31, 2017, the Hotel Room Rental Tax Fund had receivables of approximately \$181,000 with no related allowance.

Assets Restricted for Capital Projects and Debt Service

Assets held for capital projects represent unspent proceeds of various bond issues that are legally restricted solely for the underlying purposes of the various debt agreement(s).

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.

Investments

Pension plan investments are reported at fair value. Alternative investments are valued at net asset value per share, which approximates fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Purchases and sales are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Cost of securities sold is determined on the specific identification method, generally on a first-in, first-out basis.

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 acquisition cost at the date of donation.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

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, pursuant to the terms of the applicable union agreement or the County’s policy, for nonunion employees. 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 two variable-to-variable basis swaps, which are considered investment derivative instruments, related to its General Obligation Bonds, Series A of 2015 (Note 9).

Unearned Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue on the governmental fund financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the County reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County reports the deferred bond refunding and deferred outflows of resources related to the net pension liability, as deferred outflows.

In addition to liabilities, the County reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenue arising from property taxes and certain other funds received for which the County is not entitled to yet, which are deferred and recognized as an inflow of resources in the period that the amounts become available. The County reports deferred inflows of resources related to the net pension liability as deferred inflows.

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:

Nonspendable – 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balance Classifications/Policies and Procedures (Continued)

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 government purposes.
- The County Council authorized the executive director or similar individual to assign funds to specific purposes within 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.

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.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value in three levels based on the extent to which inputs used in measuring fair value are observable in the market:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value (Continued)

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for assets or liabilities categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 REPORTING ENTITY

In accordance with GASB Statement No. 14, as amended, the County has evaluated all related entities (authorities, commissions, joint ventures and affiliates) for possible inclusion in its financial reporting entity. Statement No. 14, as amended, provides for two methods of including component units within the financial reporting entity, depending on the nature of the significance of financial and operational relationships between the County and the other entity. Blended component units, although legally separate entities are, in substance, part of the County's operations, County Council members typically comprise the majority of their governing body, and there is a financial benefit or burden on the primary government. Therefore, data from these component units are combined with data of the primary government (i.e., County). 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 Units

The Luzerne-Wyoming Counties Mental Health Developmental Services Programs, Area Agency on Aging for Luzerne/Wyoming Counties, and Luzerne-Wyoming Counties Drug and Alcohol Program are included in the County's reporting entity as blended component units because of the significance of the economic, operational, and financial support provided by Luzerne County to these organizations and programs relationships with the County.

The boards of these organizations and programs are comprised of members appointed by 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.

These organizations and programs audit reports, as of June 30, 2017, are available for public inspection in the office of the County Manager.

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:

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 REPORTING ENTITY (CONTINUED)

Discretely Presented Component Units (Continued)

Luzerne County Community College (LCCC)

LCCC was established to provide affordable higher education to County residents. The board of directors of LCCC is 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 2017, the County contributed approximately \$5,900,000 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.

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 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 appointed by the Luzerne County Council.

The Bureau does not issue separate financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 REPORTING ENTITY (CONTINUED)

Joint Venture

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. Luzerne and Lackawanna County's subsidies to the Airport were \$285,200 and \$319,445 for the years ended December 31, 2017 and 2016, respectively. The Airport's net position totaled \$94,261,904 as of December 31, 2017 and \$94,168,098 as of December 31, 2016.

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

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
- Luzerne County Flood Protection Authority

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

NOTE 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

- 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.

Deposits with Financial Institutions

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a formal policy for custodial credit risk. At December 31, 2017, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$62,808,316 compared to the carrying amount of \$58,435,183. The difference is caused by items in-transit and outstanding checks. \$57,002,079 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

Custodial Credit Risk (Continued)

At December 31, 2017, the bank and carrying balance of the County's pension deposits with financial institutions, including cash equivalents, was \$12,309,804, which was fully collateralized.

Restricted Cash and Investments

As of December 31, 2017, the County's restricted cash and 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	\$ 4,174
Capital Projects:		
Wilmington U.S. Government Money Market Fund	N/A	8,340,548
Restricted Cash	N/A	9,234,084
Health and Human Services Fund:		
Restricted Cash	N/A	221,935
Internal Service Fund:		
Money Market Funds	N/A	<u>1,180,379</u>
Total		<u><u>\$ 18,981,120</u></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 within its governmental funds had the following credit risk at December 31, 2017.

<u>Investment</u>	<u>Value</u>	<u>Moody's Rating</u>	<u>%</u>
U.S. Government Obligations (Level 1)	\$ 4,174	AA+	100%

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government Notes and Bonds	\$ 17,485,750	\$ -	\$ -	\$ 17,485,750
Mutual Funds	78,486,845	-	-	78,486,845
Domestic Common Stock	17,405,824	-	-	17,405,824
International Stock	14,659,832	-	-	14,659,832
Exchange Traded Funds and Closed-end Funds	39,469,806	-	-	39,469,806
Corporate Bonds	-	41,983,421	-	41,983,421
Municipal Bonds	-	7,356,940	-	7,356,940
Total	<u>\$ 167,508,057</u>	<u>\$ 49,340,361</u>	<u>\$ -</u>	216,848,418
Alternative Investments				10,327,694
Total Investments				<u>\$ 227,176,112</u>

The County pension plan uses the following valuation techniques to measure the fair value of its investments. Mutual funds, domestic common stock, international stock, and exchange traded funds and closed end funds are valued using quoted market prices (Level 1 inputs). U.S. government notes and bonds, corporate bonds and municipal bonds are valued by a third party as of the latest trade date (Level 2 inputs). Alternative investments are valued at net asset value per share, which approximates fair value.

The following table sets forth additional disclosures for the measurement of investments in certain entities that calculate net asset value per share (or its equivalent):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative Investments:			
Blackstone Alternative Alpha Fund	293,168	3 Months	95 Days
Canyon Value Realization Fund (Cayman), Ltd.	4,000,000	Not Applicable	Not Applicable
Ironwood Institutional Multi-Strategy Fund	3,119,320	Not Applicable	Not Applicable
Skybridge Series G Fund	2,915,206	3 Months	65 Days

There were no unfunded commitments at December 31, 2017.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

The Blackstone Alternative Alpha Fund (Blackstone) seeks to earn long-term risk-adjusted returns that are as attractive compared to those of traditional public equity and fixed-income markets. As an equity-focused fund, Blackstone invests predominantly in hedge funds that employ equity-based investment strategies. Blackstone also invests in hedge funds that employ diversifying strategies that have exhibited low correlation to equity markets as part of an effort to seek to reduce volatility.

The Canyon Valuation Realization Fund (Canyon) is a hedge fund primarily invested in bonds, commodities, equities and other distressed assets. The focus of Canyon is on idiosyncratic risk rather than market risk and the portfolio is dominated by complex distressed or other special situations where lower accessibility has limited pricing distortion.

The Ironwood Institutional Multi-Strategy Fund's (Ironwood) objective is to achieve capital appreciation with limited variability of returns by allocating capital among a number of underlying funds, including hedge funds.

The Skybridge Series G Fund's (Skybridge) objective is to achieve capital appreciation principally through investing in investment funds managed by third-party investment managers that employ a variety of alternative investment strategies. These investment strategies allow the investment managers the flexibility to use leveraged and/or short-sale positions.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not recover the value of its investments or collateral securities that are in the possession of an outside party. The County pension plan's investment policy does not specifically address custodial credit risk. All of the County pension plan's investments are registered investments for which the securities are held by the custodian in the County pension plan's name. Investments are insured up to \$500,000 (including \$250,000 for claims for cash) under the Securities Investor Protection Corporation.

Concentration of Credit Risk

The County pension plan's investment policy places the following limits on the amount the pension plan may invest in any one issuer: 1) not more than 10% of the total market value of the portfolio may be invested in fixed income securities of a single issuer or issue; 2) not more than 20% of the portfolio may be invested in collateralized mortgage obligations; 3) not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. At December 31, 2017, the County's pension plan did not have any investments that exceeded the above concentration policies.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

Credit Risk

The County's pension plan investment policy limits the overall rating of the fixed income securities, as calculated by the investment manager, based on the rating of one of the nationally recognized statistical rating organizations. Per the County pension plan's investment policy, fixed income securities shall be rated "BBB" (or its equivalent) or higher at the time of purchase, and the minimum dollar-weighted average credit quality rating of the fixed income portfolio is "A" (or its equivalent).

At December 31, 2017, investment ratings for the County pension plan's U.S. Government notes and bonds, corporate bonds, and municipal bonds are as follows:

<u>Investment Type</u>	<u>Investment Rating</u>	<u>Percentage</u>
U.S. Government Notes and Bonds	AAA	5.27%
U.S. Government Notes and Bonds	Unrated	20.89%
Corporate Bonds	AAA	3.45%
Corporate Bonds	AA1	0.67%
Corporate Bonds	AA2	4.53%
Corporate Bonds	AA3	2.87%
Corporate Bonds	A1	9.19%
Corporate Bonds	A2	11.13%
Corporate Bonds	A3	12.78%
Corporate Bonds	BAA1	12.52%
Corporate Bonds	BAA2	3.70%
Corporate Bonds	BAA3	0.87%
Corporate Bonds	N/A	0.61%
Corporate Bonds	N/R	0.51%
Municipal Bonds	AAA	2.93%
Municipal Bonds	AA1	3.22%
Municipal Bonds	AA2	1.62%
Municipal Bonds	A1	0.19%
Municipal Bonds	A2	1.45%
Municipal Bonds	Unrated	1.60%
Total		<u>100.00%</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

Interest Rate Risk

The County pension plan's investment policy limits the effective maturity of any single security to thirty years. At December 31, 2017, the County's pension plan's investment maturities are as follows:

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
U.S. Government Notes and Bonds	\$ 17,485,750	\$ -	\$ 342,977	\$ 2,783,711	\$ 14,359,062
Corporate Bonds	41,983,421	938,175	12,091,432	5,377,782	23,576,032
Municipal Bonds	7,356,940	163,270	668,048	3,004,903	3,520,719
Total	<u>\$ 66,826,111</u>	<u>\$ 1,101,445</u>	<u>\$ 13,102,457</u>	<u>\$ 11,166,396</u>	<u>\$ 41,455,813</u>

Foreign Currency Risk

The County pension plan's investment policy requires all international securities to be American depository receipts (ADRs), American depository shares (ADSs) 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.

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, 2017, the bank balance of LCCC's deposits with financial institutions was \$25,493,752 compared to the carrying amount of \$24,520,672, excluding petty cash totaling \$9,870. The difference is caused by items in-transit and outstanding checks. \$25,243,752 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, 2017**

NOTE 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 2017 are recorded as receivables, net of estimated uncollectible amounts. The net receivables collected during 2017 and expected to be collected within the first sixty (60) days of 2018 are recognized as revenue in 2017. Net receivables estimated to be collectible subsequent to March 31 are reflected in unavailable revenues. Prior years' levies are recorded using these same principles, and remaining receivables are annually reevaluated as to collectability. The rate of taxation in 2017 was 5.98 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, 2017 were approximately \$13,322,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$1,066,000.

NOTE 5 DUE FROM OTHER GOVERNMENTS

Due from other governments of \$17,718,812 consist of amounts due from the Commonwealth of Pennsylvania and various other local governments.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 6 NOTES RECEIVABLE – LUZERNE COUNTY OFFICE OF COMMUNITY DEVELOPMENT (OCD)

Business Development Loans

Revolving Loan Program notes receivable in the Business Development Loan Program result from loans funded through the relending of previously earned revenues through a revolving loan program. These notes are generally for a period of 5 to 15 years and are collateralized by letters of credit or mortgages and notes.

The balance at December 31, 2017 consists of the following:

Business Development Loans	\$ 26,210,718
Machinery and Equipment Loans	21,665
First Time Home Buyer Loans	4,363
Total Business Development Loans	<u><u>\$ 26,236,746</u></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, the full loan principal and interest will be forgiven at the end of the term. If a participant does not comply with the program regulations, the loan will need to be repaid by its original terms.

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 noninterest 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 2013, 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 deferred inflow of resources 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, 2017 was \$9,085,423.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 CAPITAL ASSETS

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

	January 1, 2017	Acquisitions	Disposals	Transfer	December 31, 2017
Capital Assets Not Being Depreciated:					
Land	\$ 4,284,135	\$ -	\$ -	\$ -	\$ 4,284,135
Construction-in-Progress	5,527,737	4,703,453	-	(5,470,870)	4,760,320
Total Capital Assets Not Being Depreciated:	9,811,872	4,703,453	-	(5,470,870)	9,044,455
Capital Assets Being Depreciated:					
Infrastructure	63,672,161	3,810,281	-	3,818,486	71,300,928
Airport	668,061	-	-	-	668,061
Land Improvements	368,010	160,329	-	-	528,339
Buildings and Improvements	79,271,764	451,256	(238,198)	1,652,384	81,137,206
Machinery and Equipment	21,692,044	1,569,769	(1,127,758)	-	22,134,055
Total Capital Assets Being Depreciated	165,672,040	5,991,635	(1,365,956)	5,470,870	175,768,589
Less: Accumulated Depreciation:					
Infrastructure	(42,084,666)	(975,105)	-	-	(43,059,771)
Airport	(246,365)	(25,238)	-	-	(271,603)
Land Improvements	(20,279)	(6,428)	-	-	(26,707)
Buildings and Improvements	(40,863,668)	(2,084,209)	99,355	-	(42,848,522)
Machinery and Equipment	(18,491,077)	(836,635)	1,060,684	-	(18,267,028)
Total Accumulated Depreciation	(101,706,055)	(3,927,615)	1,160,039	-	(104,473,631)
Net Capital Assets Being Depreciated	63,965,985	2,064,020	(205,917)	5,470,870	71,294,958
Governmental Activities Capital Assets, Net	<u>\$ 73,777,857</u>	<u>\$ 6,767,473</u>	<u>\$ (205,917)</u>	<u>\$ -</u>	<u>\$ 80,339,413</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental activities in the statement of activities at December 31, 2017 as follows:

Unallocated	\$ 3,857,119
Health and Human Services	70,276
Community and Economic Development	220
Total	<u>\$ 3,927,615</u>

At December 31, 2017, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$4,760,000 which is included in construction-in-progress at December 31, 2017. The County is committed to additional costs of approximately \$4,415,000 related to these projects.

Component Unit – Luzerne County Community College

Capital asset activity for LCCC for the year ended June 30, 2017 was as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,382,185	\$ -	\$ -	\$ 1,382,185
Construction in Progress	-	-	-	-
Total Capital Assets Not Being Depreciated	1,382,185	-	-	1,382,185
Capital Assets Being Depreciated:				
Permanent Campus	78,456,136	155,812	-	78,611,948
Furniture and Fixtures	3,430,318	-	-	3,430,318
Equipment	26,741,685	735,607	-	27,477,292
Library Books	2,112,974	60,709	-	2,173,683
Microfilm and AV Equipment	723,195	13,049	-	736,244
Motor Vehicles	715,555	-	-	715,555
Total Capital Assets Being Depreciated	112,179,863	965,177	-	113,145,040
Less: Accumulated Depreciation	<u>(71,108,794)</u>	<u>(3,398,923)</u>	-	<u>(74,507,717)</u>
Total Capital Assets Being Depreciated, Net	<u>41,071,069</u>	<u>(2,433,746)</u>	-	<u>38,637,323</u>
Component Unit Capital Assets, Net	<u>\$ 42,453,254</u>	<u>\$ (2,433,746)</u>	<u>\$ -</u>	<u>\$ 40,019,508</u>

Depreciation expense was \$3,398,923 for the year ended June 30, 2017.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS

Description	January 1, 2017	Additions	Refunding/ Payments	December 31, 2017	Current Portion (Due in 2017)
(a) 2003 General Obligation Bonds, Series C	\$ 6,900,000	\$ -	\$ (1,380,000)	\$ 5,520,000	\$ 1,455,000
(b) 2005 Luzerne County Industrial Development Authority Guaranteed Variable Rate Demand Lease Revenue Bonds (refunded)	10,675,000	-	(10,675,000)	-	-
(c) 2008 General Obligation Notes, Series A (refunded)	37,305,000	-	(37,305,000)	-	-
(d) 2008 General Obligation Bonds, Series B (refunded)	16,180,000	-	(16,180,000)	-	-
(e) 2008 General Obligation Bonds, Series C	1,580,000	-	(745,000)	835,000	835,000
(f) 2008 General Obligation Bonds, Series D	1,710,000	-	(5,000)	1,705,000	5,000
(g) 2008 General Obligation Bonds, Series E	1,770,000	-	(5,000)	1,765,000	5,000
(h) 2008 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds (refunded)	13,260,000	-	(13,260,000)	-	-
(i) 2009 General Obligation Notes	5,415,000	-	(5,000)	5,410,000	5,000
(j) 2009 General Obligation Bonds	4,755,000	-	(195,000)	4,560,000	5,000
(k) 2009 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds (refunded)	16,180,000	-	(16,180,000)	-	-
(l) 2015 General Obligation Refunding Bonds, Series A	98,925,000	-	(2,510,000)	96,415,000	3,065,000
(m) 2015 General Obligation Refunding Bonds, Series B	21,610,000	-	(3,840,000)	17,770,000	3,580,000
(n) 2017 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds, Series A	-	2,050,000	(965,000)	1,085,000	250,000
(o) 2017 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds	-	36,315,000	(435,000)	35,880,000	480,000
(p) 2017 General Obligation Refunding Bonds, Series A	-	37,500,000	-	37,500,000	5,000
(q) 2017 General Obligation Refunding Bonds, Series B	-	13,220,000	-	13,220,000	-
Total	<u>236,265,000</u>	<u>89,085,000</u>	<u>(103,685,000)</u>	<u>221,665,000</u>	<u>9,690,000</u>
Plus: Bond Premiums	11,881,039	12,404,863	(1,536,140)	22,749,762	-
Less: Bond Discount	(458,688)	-	387,585	(71,103)	-
Less: Deferred Refunding Amount	8,194,237	5,227,656	(965,022)	12,456,871	-
Total	<u>\$ 255,881,588</u>	<u>\$ 106,717,519</u>	<u>\$ (105,798,577)</u>	<u>\$ 256,800,530</u>	<u>\$ 9,690,000</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities

Specific information on each debt instrument is as follows:

- a. \$21,040,000 2003 General Obligation Bonds (Series C of 2003), payable in varying annual installments plus interest of 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.
- b. \$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 the 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. During 2015, in connection with the County's relinquishment of Moon Lake Park to the Commonwealth, the collateral on this agreement was formally amended to substitute an office building owned by the County located at 20 North Pennsylvania Avenue, Wilkes-Barre, Pennsylvania.

This Bond series was refinanced in 2017 through the issuance of the County's Guaranteed Lease Revenue Bonds, Series of 2017.

- c. \$44,480,000 General Obligation Bonds (Series A of 2008), due in semi-annual incrementally increasing principal plus interest payments at rates ranging from 4.87% 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.

This Bond series was refinanced in 2017 through the issuance of the County's General Obligation Bonds, Series B of 2017.

- d. \$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 4.87% 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 to Luzerne County Community College, fund capitalized interest, and pay the costs of issuing and insuring the bonds.

This Bond series was refinanced in 2017 through the issuance of the County's General Obligation Bonds, Series B of 2017.

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

- e. \$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.

- f. \$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.

- g. \$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 on the 2006 C Notes; and (2) paying the costs and expenses of issuance of the 2008 E Bonds.

- h. \$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 4.87% and 5.61%, 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. During 2015, in connection with the County's relinquishment of Moon Lake Park to the Commonwealth, the collateral on this agreement was formally amended to substitute an office building owned by the County located at 20 North Pennsylvania Avenue, Wilkes-Barre, Pennsylvania.

This Bond series was refinanced in 2017 through the issuance of the County's Guaranteed Lease Revenue Bonds, Series of 2017.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

- i. \$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.
- j. \$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.
- k. \$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 7.50% 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.

This Bond series was refinanced in 2017 through the issuance of the County's Guaranteed Lease Revenue Bonds, Series of 2017.

- l. \$98,925,000 General Obligation Refunding Bonds (Series A of 2015) with annual principal payments and semi-annual interest payments with an interest rate of 5.00%. The bonds mature in 2029 and the proceeds of the bonds were used towards the current refunding of the County's outstanding General Obligation Notes, Series A of 2006 (\$88,515,000); the termination of the related fixed payor swaps (\$16,160,000); and payment of costs, fees, and expenses related to the issuance of the bonds.

This refunding reduced the County's total debt service payments over the next 14 years by approximately \$1,893,315, resulting in a net economic gain of approximately \$816,767.

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

- m. \$25,855,000 General Obligation Refunding Bonds (Series B of 2015) with annual principal payments and semi-annual interest payments with an interest rate of 5.00%. The bonds mature in 2023 and the proceeds of the bonds were used towards the current refunding of the County's outstanding General Obligation Bonds, Series C of 2002 (\$1,265,000); the current refunding of the County's outstanding General Obligation Bonds; Series A of 2005 (\$10,515,000); the current refunding of the Luzerne County Flood Protection Authority's outstanding Guaranteed Flood Protection Authority Bonds, Series A of 1998 (\$15,555,000); and the payment of costs, fees, and expenses related to the issuance of the bonds.

This refunding reduced the County's total debt service payments over the next 8 years by approximately \$737,698, resulting in a net economic gain of approximately \$577,177.

- n. \$2,050,000 Luzerne County Industrial Development Authority Federally Taxable Guaranteed Lease Revenue Bonds (Series A of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 3.85% with final maturity scheduled for 2019. The proceeds of the bonds were used towards certain advance and current refundings noted in "o" below.

- o. \$36,315,000 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds (Series of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 5.00% with final maturity scheduled for 2027. The proceeds of the bonds were used towards the current refunding of the County's outstanding Lease Revenue Bonds, Series of 2005 (\$10,675,000); the advance refunding of the Lease Revenue Bonds, Series of 2008 (\$13,260,000); the advance refunding of the Lease Revenue Bonds, Series of 2009 (\$16,180,000); and the payment of costs, fees, and expenses related to the issuance of 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.

This refunding reduced the County's total debt service payments over the next 10 years by approximately \$921,353, resulting in a net economic gain of approximately \$777,714.

- p. \$37,500,000 General Obligation Refunding Bonds (Series A of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 5.00%. The bonds mature in 2029 and the proceeds of the bonds were used towards the advance refunding of the County's outstanding General Obligation Notes, Series A of 2008 (\$37,305,000); the funding of an energy conservation project of the County; and payment of costs, fees, and expenses related to the issuance of the bonds.

This refunding reduced the County's total debt service payments over the next 12 years by approximately \$3,067,500, resulting in a net economic gain of approximately \$2,857,998.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

q. \$13,220,000 General Obligation Refunding Bonds (Series B of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 5.00%. The bonds mature in 2027 and the proceeds of the bonds were used towards the advance refunding of the County's outstanding General Obligation Notes, Series B of 2008 (\$16,180,000); and payment of costs, fees, and expenses related to the issuance of the bonds.

This refunding reduced the County's total debt service payments over the next 10 years by approximately \$647,732, resulting in a net economic gain of approximately \$611,698.

Interest paid on these bonds and notes during the year ended December 31, 2017 amounted to \$10,296,921.

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

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 9,690,000	\$ 11,303,873	\$ 20,993,873
2019	14,695,000	10,796,923	25,491,923
2020	16,975,000	10,037,963	27,012,963
2021	17,805,000	9,205,488	27,010,488
2022	18,695,000	8,309,050	27,004,050
2023 - 2027	108,695,000	26,376,638	135,071,638
2028 - 2032	35,110,000	2,283,500	37,393,500
Total	<u>\$ 221,665,000</u>	<u>\$ 78,313,435</u>	<u>\$ 299,978,435</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

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, 2017, the amount of defeased bonds outstanding was \$77,915,000.

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

<u>Series</u>	<u>Final Maturity</u>	<u>Outstanding Principal at December 31, 2017</u>
LCIDA Lease Revenue Bonds, Series of 2008	2027	12,340,000
LCIDA Lease Revenue Bonds, Series of 2009	2027	15,600,000
General Obligation Bonds, Series A of 2008	2027	34,975,000
General Obligation Bonds, Series B of 2008	2027	15,000,000
Total		<u>\$ 77,915,000</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Component Unit – Luzerne County Community College

At June 30, 2017, LCCC's long-term debt obligations were as follows:

Description	July 1, 2016	Additions	Payments	June 30, 2017	Current Portion
Northeastern Pennsylvania Hospital and Education Authority Guaranteed College Revenue Bonds, Series of 1997	\$ 840,000	\$ -	\$ 840,000	\$ -	\$ -
Hazleton Area Industrial Authority Guaranteed College Revenue Note 2011	2,590,897	-	128,365	2,462,532	128,230
Total	<u>\$ 3,430,897</u>	<u>\$ -</u>	<u>\$ 968,365</u>	<u>\$ 2,462,532</u>	<u>\$ 128,230</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 scheduled 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. 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, 2017.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 128,230	\$ 122,559	\$ 250,789
2019	134,867	115,919	250,786
2020	141,552	109,234	250,786
2021	149,180	101,606	250,786
2022	93,880	156,905	250,785
Thereafter	1,814,823	361,596	2,176,419
Total	<u>\$ 2,462,532</u>	<u>\$ 967,819</u>	<u>\$ 3,430,351</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS

Basis Swaps

Objective of the Basis Swap

The County entered into 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 and were 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.

During 2015, the County refunded its outstanding 2006A Notes and its 2003C Bonds through the issuance of its General Obligation Refunding Bonds, Series A of 2015 (the 2015A Bonds), which assumed the original basis swap agreements.

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 2015A Bonds mature on November 15, 2029.

The terms of the basis swaps are as follows:

<u>Issue</u>	<u>Counter-Party</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Variable Rate Received</u>	<u>Variable Rate Paid</u>	<u>Fair Value (Level 3)</u>	<u>Swap Termination</u>	<u>Counter-Party Credit Rating</u>
Series A of 2006	JP Morgan	\$ 60,000,000	6/1/2013	67% LIBOR	SIFMA	\$ (642,089)	10/1/2026	Aa3/A+
Series A of 2006	PNC	40,000,000	6/1/2013	67% LIBOR	SIFMA	(427,959)	10/1/2016	A2/A
Total		<u>\$ 100,000,000</u>				<u>\$ (1,070,048)</u>		

At December 31, 2017, 67% LIBOR rate was .48% and the SIFMA rate was .72%.

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Basis Swaps (Continued)

Fair Value

At December 31, 2017, the basis swaps had an aggregate negative fair value of \$(1,070,048), 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, 2017, 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.

The basis swap transaction exposes the County to credit (default) risk. Because the County currently has a noninvestment grade bond credit rating (BB+), 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, 2017, 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 nondefaulting 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 nondefaulting party.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Basis Swaps (Continued)

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, 2017, 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.

NOTE 10 COMPENSATED ABSENCES

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

Balance - January 1, 2017	\$ 4,478,361
Increase	6,684,541
Decrease	<u>(6,517,381)</u>
Balance - December 31, 2017	<u>\$ 4,645,521</u>

The County pays its compensated absences from the General Fund.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS

Plan Description

The Luzerne County Retirement Fund (the Plan) is a cost-sharing multiple-employer defined benefit pension plan that covers all full-time employees of the County. The Plan also provides benefits to eligible employees of the Wilkes-Barre/Scranton International Airport (the Airport) and the Flood Protection Authority/Levee (the Authority). 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 stand-alone financial statements may be obtained from the County Manager's office.

Benefits Provided

The Plan provides for normal and early 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. All benefits vest after five years of credited service.

Participants are eligible for normal retirement after attainment of age 60 or 55 with 20 years of credited service. Participants are eligible for voluntary early retirement if they have 20 years of credited service and have not reached the age of 55. Participants are eligible for involuntary early retirement if they are involuntarily terminated, or, as an elected official, separate from County service and have eight years of credited service.

Participants may elect to receive their benefits in the form of a straight life annuity (full monthly pension for as long as the participant lives), a 100% joint and survivor annuity (100% of the participant's monthly pension to be paid as long as either lives), a 50% joint and survivor annuity (50% of the participant's monthly pension to be paid as long as either lives), or in a lump-sum payment the accumulated deductions, consisting of member contributions and/or "pickup contributions" plus all interest.

Participants are eligible for disability retirement pension if they become disabled while in service and are unable to continue as a County employee as shown by medical examination, have five years of credited service, and are not eligible for a normal retirement pension. A disability pension is based on 25% of the final average salary of the participant.

If a participant dies in active service after age 60 or after 10 years of credited service, a lump-sum death benefit will be paid to his or her designated beneficiary. The benefit is equivalent to the present value of what the participant would receive if retired at the date of death. After reaching age 60 or completing 10 years of service, participants may file with the Pension Board to have their death benefit paid in the form of a monthly annuity rather than a lump-sum benefit.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Funding Policy and Contributions

Plan members are required to contribute 5% of their salary to the Plan, and may elect to contribute up to an additional 10% of their annual salary. If a member elects to voluntarily contribute more than the minimum, there is no corresponding increase in contributions made by the County. Members contributed \$4,027,926 to the Plan for the year ended December 31, 2017.

The County is required to contribute at an actuarially determined rate. The actuarially determined contribution is funded by various County departments, the Airport, and the Authority based on a contribution percentage. The contribution percentage for each contributing entity is determined by taking the total covered payroll of the respective department, Airport, or Authority and dividing it by the total covered payroll of all contributing entities for the year. 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. The County contributed \$11,794,593 to the Plan for the year ended December 31, 2017.

The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2016. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3%, and (c) cost-of-living adjustments provided at the discretion of the Luzerne County Employees' Retirement Board (none assumed). Both (a) and (b) included an inflation component of 3%. The actuarial value of the Plan's assets was market value adjusted for unrecognized gains and losses from prior years.

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the County reported a total net pension liability of \$83,473,736 for its participation in the Plan. The net pension liability attributed to participation in the Plan was measured as of December 31, 2017, except for the net pension liability related to the Fiscal Programs, which were measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017, except for the total pension liability related to the Fiscal Programs, which were determined by an actuarial valuation as of January 1, 2016. The County's proportion of the Plan net pension liability was determined by taking the total covered payroll of the respective department, Airport, or Authority and dividing it by the total covered payroll of all contributing entities for the year. At December 31, 2017, the County's reported proportionate share of the Plan's net pension liability was 97.77%, which was an increase of 0.31% from its proportion measured as of December 31, 2016.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended December 31, 2017, the County recognized pension expense of \$15,619,687. At December 31, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Earnings on Plan Investments	\$ 6,710,492	\$ -
Difference Between Expected and Actual Experience	2,648,865	1,638,983
Contributions Made Subsequent to Measurement Date	603,111	-
Change in Proportion	<u>514,459</u>	<u>151,893</u>
Total	<u><u>\$ 10,476,927</u></u>	<u><u>\$ 1,790,876</u></u>

The \$603,111 reported as deferred outflow of resources related to pensions resulting from County contributions to the Plan subsequent to the measurement date for the Fiscal Programs will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 5,202,558
2019	3,977,903
2020	368,380
2021	(1,285,050)
2021	<u>(180,851)</u>
Total	<u><u>\$ 8,082,940</u></u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability above was determined by actuarial valuations performed as of January 1, 2017, and January 1, 2016 (for the Fiscal Programs), using the following actuarial methods and assumptions for both valuations (unless otherwise noted below):

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Actuarial Assumptions:	
Projected Salary Increases	3.0% + service based incentives
Inflation	3.0%
Interest Rate	7.25%, net of investment expense and including inflation
Cost-of-Living Adjustments	N/A
Mortality Rate	Based on the Retired Pensioners (RP)-2000 Tables, Projected to 2015 (January 1, 2016 Valuation)
Asset Valuation Method	Fair (Market) Value

The actuarial assumptions used in the January 1, 2017 and 2016 valuations were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012. The next assumption review is scheduled for 2018. No significant events or changes in assumptions occurred between the valuation date and fiscal year-ends.

The Plan's investment policy objective is to meet or exceed the benchmark selected and agreed upon by the board that mostly corresponds to the nature of the Plan's liabilities and to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following were the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2017:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	30.00 %	2.92 %
Domestic Equity	40.00 %	5.95
International Equity	20.00 %	6.26
Alternative Investments	09.90 %	5.62
Cash, Short-Term Funds	00.10 %	0.84

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Rate of Return

The money-weight rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2017, the annual money-weighted rate of return on Plan investments, net of investment expense was 11.2%.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.25%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that County, Airport, and Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments. Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were to be calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
Net Pension Liability	\$ 119,273,464	\$ 83,473,735	\$ 55,272,769

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Component Unit – Luzerne County Community College

LCCC participates in three contributory pension plans covering substantially all academic and nonacademic personnel. The three plans offered by LCCC include the Pennsylvania Public School Employee's Retirement System (PSERS), the State Employees' Retirement System (SERS), and the Teachers' Insurance and Annuity Association – Credit Retirement Equities Fund (TIAA-CREF).

The annual contribution to the various plans is shared mainly by LCCC and its employees, with an additional state match from the Commonwealth of Pennsylvania for those participating in PSERS.

PSERS

PSERS is a governmental cost-sharing, multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

PSERS provides retirement, disability, and death benefits. Participants contribute at rates ranging between 5.25% and 10.30%, depending on date of original hiring. LCCC contributes at a contractually required pension contribution rate (130.3% of covered payroll for the year ended June 30, 2017).

SERS

All full-time employees of LCCC contribute to SERS, a governmental cost-sharing, multiple-employer defined benefit pension plan. SERS issues a publicly available financial report that can be obtained at www.sers.state.pa.us.

Membership in SERS is mandatory for all full-time LCCC employees. SERS provides retirement, death, and disability benefits according to statute. Retirement benefits vest after five years of credited service.

Covered employees are required by statute to contribute at a rate of 5.00% – 9.30%, dependent on member class, of their gross pay. In addition, LCCC contributes at a contractually required contribution rate (24.86% of annual payroll for the year ended June 30, 2017).

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

The PSERS net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS total pension liability as of June 30, 2015 to June 30, 2016. LCCC's proportion of the PSERS net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, LCCC's proportion was 0.0079%, which was a decrease from its proportion of .0080% measured as of June 30, 2015.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources (Continued)

The SERS net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. LCCC's proportion of the SERS net pension liability was allocated by SERS to each employer based on a projected-contribution method. At December 31, 2016, LCCC's proportion was 0.0590%, which was an increase from its proportion of .0587% measured as of December 31, 2015.

	<u>PSERS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 740,799	\$ 2,456,663	\$ 3,197,462
Net Pension Liability	3,915,000	11,371,092	15,286,092
Deferred Inflows of Resources	93,000	1,345,604	1,438,604
Pension Expense	411,876	1,215,570	1,627,446

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were to be calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability - PSERS	\$ 4,789,000	\$ 3,915,000	\$ 3,180,000
Net Pension Liability - SERS	14,072,255	11,371,092	9,057,935

TIAA-CREF

The Plan is a defined contribution plan, with various investment options available to employees. A faculty, classified, or administration member's contribution to TIAA-CREF shall be a mandatory five (5%) percent to a maximum based on Internal Revenue Service limits of total salary.

The employee may choose the specific percentage contribution within the required guidelines. LCCC contributes 7.5% of compensation earned up to \$7,800 and 10% of the amount earned in excess of \$7,800 for classified employees, 13% of total applicable salaries for administration, and 10% of total applicable salaries for faculty. During the year ended June 30, 2017, LCCC contributed \$1,546,313 for eligible employees.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 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, 2016, the date of its latest actuarial valuation:

Retirees and Beneficiaries Receiving Benefits	23
Active Plan Members	<u>272</u>
Total	<u><u>295</u></u>

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. 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. If retiring after January 1, 2013 with 20 years of service, the retiree pays \$60 per month. For those retiring after January 1, 2013 with less than 20 years of service, the retiree pays \$60 per month plus a percentage of the premium ranging from 0.50% 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 is 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	\$ 726,498
Interest on Net OPEB Obligation	391,590
Adjustment to Annual Required Contribution	<u>(544,367)</u>
Annual OPEB Cost	573,721
Contributions Made (Estimated)	<u>(346,441)</u>
Increase in Net OPEB Obligation	227,280
Net OPEB Obligation - Beginning of Year	<u>9,789,754</u>
Net OPEB Obligation - End of Year	<u><u>\$ 10,017,034</u></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 \$227,280.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for December 31, 2017 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	<u>\$ 647,670</u>	<u>48.69%</u>	<u>\$ 9,490,071</u>
December 31, 2016	<u>\$ 617,216</u>	<u>51.45%</u>	<u>\$ 9,789,754</u>
December 31, 2017	<u>\$ 573,721</u>	<u>60.38%</u>	<u>\$ 10,017,034</u>

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2016, the most recent actuarial valuation date was as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (Asset) (c)	Funded Ratio (a)/(b)	Annual Covered Payroll (d)	Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)
Total	<u>\$ -</u>	<u>\$ 7,594,356</u>	<u>\$ 7,594,356</u>	<u>0%</u>	<u>\$ 18,624,205</u>	<u>40.78%</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress (Continued)

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 effects 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, 2016 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 plan was 7% for 2016, then 6.5% for 2017 reducing by 0.50% per year thereafter, to an ultimate rate of 4.5% per year for 2021 and thereafter.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 13 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	Nonmajor Funds	Total
Nonspendable for:							
Prepaid Expenses and Notes Receivable	\$ 80,710	\$ 27,502,569	\$ 94,646	\$ -	\$ -	\$ -	\$ 27,677,925
Total Nonspendable	<u>\$ 80,710</u>	<u>\$ 27,502,569</u>	<u>\$ 94,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,677,925</u>
Restricted for:							
Grant Programs	\$ 1,807,802	\$ -	\$ 5,332,503	\$ -	\$ -	\$ 1,969,839	\$ 9,110,144
Liquid Fuels	-	-	-	-	-	3,812,455	3,812,455
Emergency 911	-	-	-	-	-	2,532,149	2,532,149
Probation	-	-	-	-	-	2,250,435	2,250,435
Loan Programs	-	18,997,760	245,436	-	-	1,566,124	20,809,320
Debt Service	-	-	-	4,174	-	-	4,174
Capital Projects	-	-	-	-	16,808,168	-	16,808,168
Total Restricted	<u>\$ 1,807,802</u>	<u>\$ 18,997,760</u>	<u>\$ 5,577,939</u>	<u>\$ 4,174</u>	<u>\$ 16,808,168</u>	<u>\$ 12,131,002</u>	<u>\$ 55,326,845</u>
Assigned for:							
Solid Waste	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,361,926	\$ 4,361,926
Grant Programs	-	-	-	-	-	46,082	46,082
Domestic Relations	-	-	-	-	-	4,802,350	4,802,350
Total Assigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,210,358</u>	<u>\$ 9,210,358</u>

NOTE 14 DEFICIT FUND BALANCES

The General Fund has an unassigned net deficit fund balance of \$1,193,833 at December 31, 2017. The County anticipates future changes within revenues and tighter expenditure controls that will result in positive changes in fund balance in future years. In addition, the County is working towards refinancing existing long-term debt to achieve interest savings.

The nonmajor funds have an unassigned net deficit fund balance of \$189,030 at December 31, 2017. The County anticipates future changes within revenues and tighter expenditure controls within the nonmajor fund group which would lead to a positive changes within the upcoming years.

The Internal Service Fund has a net deficit of \$2,191,614 at December 31, 2017. 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.

NOTE 15 SELF INSURANCE

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

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 15 SELF INSURANCE (CONTINUED)

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, 2017 and 2016, the County has recorded a liability for claims incurred at their net present value of \$3,608,113 and \$3,877,222, respectively. This liability is calculated based on past loss experience and is discounted at a rate of 2.58% and 2.79% at December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance - January 1	\$ 3,877,222	\$ 3,255,032
Claims Incurred	1,149,598	1,951,223
Claims Paid	<u>(1,418,707)</u>	<u>(1,329,033)</u>
Balance - December 31	<u>\$ 3,608,113</u>	<u>\$ 3,877,222</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 health care 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.

Changes in the balance of employee healthcare liabilities for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Balance - January 1	\$ 290,131	\$ 326,747
Claims Incurred	16,838,876	17,242,033
Claims Paid	<u>(16,868,319)</u>	<u>(17,278,649)</u>
Balance - December 31	<u>\$ 260,688</u>	<u>\$ 290,131</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 16 INTERFUND BALANCES/TRANSFERS

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2017 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 15,380,032	\$ 13,585,288
Health and Human Services Funds	8,835,588	14,269,052
Office of Community Development	-	38,047
Nonmajor Funds	<u>5,112,154</u>	<u>1,435,387</u>
Total	<u>\$ 29,327,774</u>	<u>\$ 29,327,774</u>

The amounts due to the General Fund are generally for payroll. All of these items are expected to be repaid in 2018. Amounts due to the Fiscal Programs are reported on the financial statements as due to agencies and totaled \$5,401,064 as of December 31, 2017.

Interfund transfers in 2017 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Health and Human Services Funds	\$ 153,409	\$ 7,781,403
Capital Projects	-	-
Debt Service Fund	-	21,369,365
Nonmajor Funds - Domestic Relations Office	-	1,941,821
Total General Fund	<u>153,409</u>	<u>31,092,589</u>
Health and Human Services Funds:		
General Fund	8,638,649	-
Debt Service Fund:		
General Fund	21,369,365	-
Nonmajor Funds:		
Domestic Relations Office	<u>1,941,514</u>	<u>-</u>
Totals	<u>\$ 32,102,937</u>	<u>\$ 31,092,589</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 16 INTERFUND BALANCES/TRANSFERS (CONTINUED)

The difference between transfers in and transfers out of \$1,010,348 is due to the Fiscal Programs having a June 30, 2017 year-end.

Transfers into the Debt Service Fund (\$21,369,365) were used to fund the County's annual debt service payments from general real estate taxes collected. Transfers into the General Fund (\$1,121,384) were used to refund expenses paid by the General Fund on behalf of probation.

Transfers out of the General Fund included \$8,638,649 in operating subsidy for the Health and Human Services Funds, \$1,941,822 in operating subsidy for Domestic Relations, \$1,439,388 transfer to the internal service fund to cover claims payments made during the year, and also a \$7,908,111 transfer out of the Debt Service Fund in restricted bond proceeds for the Capital Projects Fund.

NOTE 17 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.

NOTE 18 NEWLY ADOPTED STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces the requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The adoption of this standard had no impact on the County's financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 18 NEWLY ADOPTED STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (CONTINUED)

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements related to nonprofit corporations for which the primary government is the sole corporate member. The adoption of this standard had no impact on the County's financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The adoption of this standard had no impact on the County's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain implementation issues related to (1) the presentation of payroll-related measures in required supplementary information; (2) selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee contribution requirements. The adoption of this standard had no impact on the County's financial statements.

NOTE 19 RECENT STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability equal to the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 19 RECENT STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (CONTINUED)

Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a health care cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The County is required to adopt Statement No. 75 for its calendar 2018 financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The County is required to adopt Statement No. 83 for its calendar 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Criteria for identifying fiduciary activities are generally defined as (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement also defines four fiduciary funds that should be reported. The County is required to adopt Statement No. 84 for its calendar 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which is effective for fiscal years beginning after June 17, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The County is required to adopt Statement No. 85 for its calendar 2018 financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 19 RECENT STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (CONTINUED)

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which is effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The County is required to adopt Statement No. 86 for its calendar 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The County is required to adopt Statement No. 87 for its calendar 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The County is required to adopt Statement No. 88 for its calendar 2019 financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 19 RECENT STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (CONTINUED)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement also establishes accounting requirements for interest cost incurred before the end of a construction period. The County is required to adopt Statement No. 89 for its calendar 2020 financial statements.

In August 2018, the GASB issued Statement No. 90, *Major Equity Interests*, which is effective for fiscal years beginning after December 15, 2018. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting component unit if a government acquires a 100% equity interest in that component unit. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measureable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. The County is required to adopt Statement No. 90 for its calendar 2019 financial statements.

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

NOTE 20 SUBSEQUENT EVENT

LCCC entered into a Lease and Sublease Agreement with General Municipal Authority of the City of Nanticoke and US Bancorp Government Leasing and Finance, Inc. on August 31, 2017 for the financing of the Guaranteed Energy Savings Agreement (GESA) for approximately \$7,900,000. The GESA Project was executed with Ameresco, Inc. on June 28, 2017. The project involved electric to gas heat conversion and lighting upgrades to LED lighting systems, which the cost savings will pay for the renovation costs, consultants and financing payments.

COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	General Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 118,054,000	\$ 117,839,445	\$ (214,555)
Payments in Lieu of Taxes	250,000	262,659	12,659
Intergovernmental	2,530,910	1,159,028	(1,371,882)
Charges for Services	5,439,316	5,393,577	(45,739)
Licenses and Permits	3,037,092	3,531,099	494,007
Fines and Forfeits	491,275	1,194,156	702,881
Interest and Rent	154,812	248,881	94,069
Contributions and Other	4,895,039	4,780,347	(114,692)
Total Revenue	<u>134,852,444</u>	<u>134,409,192</u>	<u>(443,252)</u>
EXPENDITURES			
General Government:			
Administration	7,067,798	10,974,575	(3,906,777)
Judicial	33,236,467	31,384,367	1,852,100
Corrections	34,635,065	33,417,412	1,217,653
Other	4,628,217	4,365,374	262,843
Public Safety	1,772,489	953,722	818,767
Public Works	4,595,779	4,577,845	17,934
Health and Human Services	-	656,572	(656,572)
Intergovernmental Appropriations	7,974,008	8,296,430	(322,422)
Debt Service, Interest	1,518,604	169,487	1,349,117
Total Expenditures	<u>95,428,427</u>	<u>94,795,784</u>	<u>632,643</u>
EXCESS OF REVENUES OVER EXPENDITURES	39,424,017	39,613,408	189,391
OTHER FINANCING SOURCES (USES)			
Transfers In	800,000	153,409	(646,591)
Transfers Out:			
Debt Service Fund	(26,340,333)	(21,369,365)	4,970,968
Other Agencies - Operating Subsidy	(13,883,684)	(9,723,224)	4,160,460
Total Other Financing Sources (Uses), Net	<u>(39,424,017)</u>	<u>(30,939,180)</u>	<u>8,484,837</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ 8,674,228</u>	<u>\$ 8,674,228</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 YEAR ENDED DECEMBER 31, 2017
 (UNAUDITED)**

Measurement Date	County's Proportionate Share as a Percentage of Net Pension Liability	County's Proportionate Share	County's Covered Payroll	County's Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
December 31, 2017	97.77%	\$ 83,473,735	\$ 72,019,460	116%	74.10%
December 31, 2016	97.46%	92,602,974	67,686,818	137%	69.60%
December 31, 2015	97.66%	86,435,923	64,740,164	134%	70.80%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**COUNTY OF LUZERNE, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)**

Schedule of Employer Contributions*

Measurement Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2015	\$ 9,957,520	\$ 2,283,875	\$ 7,673,645	\$ 64,740,164	3.53%
2016	11,006,212	2,464,188	8,542,024	67,686,818	3.64%
2017	11,794,593	11,794,593	-	72,019,460	16.38%

*Schedules are intended to show information for 10 years. Additional years will be disclosed as they become available in future years.

Valuation Date: Actuarially determined contributions are calculated as of December 31 of the current year.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017**

1. Changes of Assumptions

The actuarial valuation used assumptions regarding future rates of investment return and rates of retirement, withdrawal, death, and disability among Plan members and their beneficiaries. The assumptions used in the January 1, 2017 actuarial valuation was based upon an actual experience study for the period January 1, 2009 to December 31, 2012.

There were no changes of assumptions from the January 1, 2016 valuation to the January 1, 2017 valuation.

2. Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	Over a closed 18 year period, beginning in 2016
Asset Valuation Method	Market Value of Assets as Determined by the Trustee
Inflation	3%
Salary Increases	3% + service based incentives
Investment Rate of Return	7.25%, net of investment expense and including inflation
Retirement Age	Normal
Mortality	Based on the Retired Pensioners (RP)-2000 Tables, Projected to 2015 (January 1, 2016 Valuation) Based on the Retired Pensioners (RP)-2000 Tables, Projected to 2014 (January 1, 2015 Valuation)

**COUNTY OF LUZERNE, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017
(UNAUDITED)**

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, 2016	\$ -	\$ 7,594,356	\$ 7,594,356	0%	\$ 18,624,205	40.78%
January 1, 2014	\$ -	\$ 7,407,147	\$ 7,407,147	0%	\$ 17,918,499	41.34%
January 1, 2012	\$ -	\$ 7,491,862	\$ 7,491,862	0%	\$ 15,963,734	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.



Investment advisory services are offered through CliftonLarsonAllen
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