

COUNTY OF LUZERNE, PENNSYLVANIA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019



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**COUNTY OF LUZERNE, PENNSYLVANIA
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YEAR ENDED DECEMBER 31, 2019**

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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, 2019, 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 98%, 92% and 100%, respectively of the assets, fund balance, and revenues of the Health and Human Services Fund and 14%, 7%, and 32%, 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 20%, 46%, and 3%, respectively, of the assets, net position, and revenues of the Governmental Activities. Also, we did not audit Domestic Relations, a special revenue fund, which represents 24%, 27%, and 15%, respectively, of the assets, fund balance, and revenues of the nonmajor funds and 2%, 1%, and 1%, respectively, of the assets, net position, and revenues of the Governmental Activities. We also did not audit the financial statements of the Pension Trust Fund, which represents 97%, 100%, and 100% of the assets, net position, and revenues of the Fiduciary Fund. Finally, we did not audit the Luzerne County Community College, which 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.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Luzerne, Pennsylvania, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 20 to the financial statements, certain errors resulting in an understatement of amounts previously reported as cash, due from other funds, intergovernmental revenues and understatements of amounts previously reported for expenses as of December 31, 2018, were discovered during the current year. The County restated its beginning net position and fund balance, general fund and health and human services funds and governmental activities, as of January 1, 2019 to correct these errors. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 14, the budgetary comparison information on page 79, the schedule of changes in net pension and net OPEB liabilities and related ratios on pages 80 and 83, and the schedule of employer contributions, Pension Trust Fund and OPEB on pages 81 and 84 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
July 6, 2020

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

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, 2019 compared to the year ended December 31, 2018. 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 \$108,772,405 at December 31, 2019.

General Fund revenues and other financing sources exceeded its expenses and other financing uses in 2019 by \$24,246,976 this total includes \$21,107,384 related to the 2019 borrowing. The 2019 day-to-day operations net of the borrowing show a \$3,139,592 increase. This increased the General Fund surplus from \$12,773,637 at December 31, 2018, as restated, to a fund surplus of \$37,020,613 at December 31, 2019.

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, 2019 was approximately \$102,777,000. The liability decreased approximately \$16,854,000 from January 1, 2019 to December 31, 2019. Refer to Note 11 for further details.

Luzerne County issued a \$33,305,000 General Obligation Note, Series of 2019 on November 26, 2019. Proceeds of the 2019 Note were applied towards the advance refunding of 2008 and 2009 Bonds and the payment of cost, fees and expenses related to issuing the 2019 Note. The County also received \$21.1 million for a \$19.7 million 911 digital upgrade and \$1.4 million towards new voting machines.

2019 Cyber Attack

Luzerne County was impacted by a cyber attack over the Memorial Day weekend in 2019. The County has incurred approximately \$1.3 million in charges related to the attack as of this audit report. The County did have a cyber insurance policy and is only expected to be required to pay the \$10,000 deductible.

County IT has increased has every system being updated daily with some updated multiple times per hour. The backup location is location out of Wilkes-Barre as an added precaution. The department has undergone training and has hosted trainings for County employees.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

Prior Period Adjustments

Luzerne County Block Grant are processed by the County through Fund 970 which had balance sheet activity only until 2018. As the County and Human services fiscal staff investigated the block grant it was agreed that the correct treatment was to restate Fund 970 for approximately \$1,558,000. This Fund balance would equal to the 2018 Fund 970 cash balance. This change needs to be picked up on both the County and Health and Human Services fund. During 2019 most of the Fund 970 cash was paid out to the Human Service agencies and only a \$30k cash balance remained.

In prior years, Luzerne County fiscal staff proposed entries to tie to the other auditors' final issued reports. During the 2019 due to from reconciliation process, it was discovered that the County had picked up as a portion on a block grant receivable and booked them to the general fund for approximately \$1,142,000. Another adjustment for approximately \$857,000 was recorded to agree the general fund to the children and youth department.

The County and Human Services fiscal staff started meeting every four to six weeks to discuss accounting questions, concerns or changes in 2019. This increased communication led to the County being able to properly correct a prior period during the 2019 audit.

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.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

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 "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Luzerne County Home Rule Charter for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 79.

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 29-78 of this report.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

**Governmental Activities Condensed Statement of Net Position
December 31, 2019 and 2018**

	2019	2018	Variance
ASSETS AND DEFERRED OUTFLOWS			
Current and Other Assets	\$ 156,006,023	\$ 138,519,458	\$ 17,486,565
Capital Assets, Net	97,308,581	88,992,590	8,315,991
Total Assets	253,314,604	227,512,048	25,802,556
Deferred Outflows of Resources	27,625,180	52,111,558	(24,486,378)
Total Assets and Deferred Outflows of Resources	\$ 280,939,784	\$ 279,623,606	\$ 1,316,178
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
Current Liabilities	\$ 44,165,422	\$ 43,590,315	\$ 575,107
Long-Term and Other Liabilities	338,813,742	351,246,357	(12,432,615)
Total Liabilities	382,979,164	394,836,672	(11,857,508)
Deferred Inflows of Resources	6,733,025	7,087,235	(354,210)
NET POSITION			
Net Investment in Capital Assets	(39,489,590)	(49,663,355)	10,173,765
Restricted	49,122,136	47,119,284	2,002,852
Unrestricted	(118,404,951)	(119,756,230)	1,351,279
Total Net Position	(108,772,405)	(122,300,301)	13,527,896
Total Liabilities, Deferred Inflows, and Net Position	\$ 280,939,784	\$ 279,623,606	\$ 1,316,178

Total assets of the Luzerne County primary government increased from \$227,512,048 at December 31, 2018 to \$253,314,604 at December 31, 2019. This amounts to an increase of \$25,802,556 or 11.34%, and was primarily the result of an increase in current and other asset of \$17,486,565 and an increase of capital assets \$8,315,991.

Deferred outflows of resources decreased by \$24,486,378 primarily as a result of the pension decrease of \$23,861,723.

The County's total liabilities decreased by \$11,857,508 during 2019, which represents a 3.00% decrease from 2018 to 2019. This was primarily the result of a decrease in net pension liability and an increase to net bonds and notes outstanding.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

**Condensed Statement of Governmental Activities
Years Ended December 31, 2019 and 2018**

	2019	2018	Variance
GOVERNMENTAL ACTIVITIES			
Program Revenues:			
Charges for Services	\$ 12,971,870	\$ 10,931,374	\$ 2,040,496
Operating Grants and Contributions	100,041,242	101,216,453	(1,175,211)
General Revenues:			
Tax Levy for General Purposes, Net	122,600,437	122,447,447	152,990
Contributions and Other	6,698,006	6,176,332	521,674
Total Revenues	242,311,555	240,771,606	1,539,949
Expenses:			
General Government - Administrative	8,365,109	10,908,919	(2,543,810)
General Government - Judicial	36,043,739	35,591,396	452,343
General Government - Corrections	36,211,382	37,327,024	(1,115,642)
General Government - Other	7,347,728	6,198,241	1,149,487
Intergovernmental Appropriations	8,161,117	8,662,853	(501,736)
Public Safety	8,789,549	7,484,009	1,305,540
Public Works	6,111,665	6,730,863	(619,198)
Human Services	93,372,855	94,839,902	(1,467,047)
Cultural and Recreation	3,042,327	3,077,913	(35,586)
Community and Economic Development	10,502,479	7,366,751	3,135,728
Unallocated Depreciation	4,455,864	4,003,561	452,303
Interest on Long-Term Debt	9,783,826	10,456,233	(672,407)
Cost of Debt Issuance	152,504	-	152,504
Total Expenses	232,340,144	232,647,665	(307,521)
CHANGES IN NET POSITION	9,971,411	8,123,941	1,847,470
Net Position - Beginning	(122,300,301)	(137,277,377)	14,977,076
Effect of adoption of GASB75	-	2,235,185	(2,235,185)
Prior Period Adjustments	3,556,485	4,617,950	(1,061,465)
Net Position - Beginning, as Restated	(118,743,816)	(130,424,242)	11,680,426
NET POSITION - ENDING	\$ (108,772,405)	\$ (122,300,301)	\$ 16,824,546

The majority of the increase in general revenue was caused by the increase in charges for services of approximately \$2,040,000.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

General government – administrative expenses decreased approximately \$2,500,000 from 2018 to 2019. This was primarily the result of lower pension expense which resulted from the decrease in the net pension liability.

Human service expenses decreased by approximately \$1,467,000 from 2018 to 2019 due to fluctuations in programs and funding received/available for various programs.

Community and economic development expenses increased by approximately \$3,100,000 from 2018 to 2019 due to an increase in funding from the community development block grant program

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

The following represents a summary of General Fund revenue, by source, along with changes from 2018.

	2019 Amount	2018 Amount	Increase (Decrease)	% Change
Taxes	\$ 120,506,548	\$ 118,124,047	\$ 2,382,501	2.02%
Payments in Lieu of Taxes	308,337	279,854	28,483	10.18
Intergovernmental	1,289,480	891,776	397,704	44.60
Charges for Service	5,303,144	5,178,341	124,803	2.41
Licenses and Permits	3,322,025	3,418,454	(96,429)	(2.82)
Fines and Forfeits	1,212,305	1,235,855	(23,550)	(1.91)
Interest and Rent	445,438	282,097	163,341	57.90
Contributions and Other	1,419,395	2,154,226	(734,831)	(34.11)
Transfers In	23,645,796	2,485,046	21,160,750	851.52
Total Revenue	<u>\$ 157,452,468</u>	<u>\$ 134,049,696</u>	<u>\$ 23,402,772</u>	<u>17.46%</u>

Total revenue in the General Fund increased by \$23,402,772 or approximately 17.46% from 2018 to 2019.

Transfers in increased \$21,160,750 from 2018 to 2019. The increase is primarily due to a 2019 borrowing that had \$21,107,384 of proceeds for digital 911 upgrade and new voting machines. This was previously discussed in financial highlights section of the MD&A.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

General Fund (Major Fund)

The following represents a summary of General Fund expenditures, by function, along with changes from 2018.

	2019 Amount	2018 Amount	Increase (Decrease)	% Change
General Government:				
Administration	\$ 8,801,659	\$ 9,698,873	\$ (897,214)	-9.25%
Judicial	33,025,698	32,151,002	874,696	2.72
Corrections	34,687,793	34,523,497	164,296	0.48
Other	7,470,438	5,866,840	1,603,598	27.33
Public Safety	1,326,547	1,054,705	271,842	25.77
Public Works	4,374,558	4,858,206	(483,648)	(9.96)
Human Services	71,710	124,216	(52,506)	(42.27)
Payments to Related Agencies	8,161,117	9,546,113	(1,384,996)	(14.51)
Transfers	35,285,972	31,803,841	3,482,131	10.95
	<u>\$ 133,205,492</u>	<u>\$ 129,627,293</u>	<u>\$ 3,578,199</u>	<u>2.76%</u>

Total expenses in the General Fund increased by \$3,578,000 or 2.76% from 2018 to 2019.

Transfers increased by approximately \$3,482,000 from 2018 to 2019.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

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 79.

The County's actual revenues for the General Fund for the year ended December 31, 2019 were \$1,798,027 more than the final budget. Of this amount, Taxes accounted for a favorable variance of approximately \$1,896,000.

The County's actual expenditures for the year ended December 31, 2019 were \$1,251,651 more than was anticipated in the final budget. The County day to day revenues versus expenditures was approximately \$546,376 above breakeven before transfers, debt service refinancing or operating subsidies to other agencies.

The overall General Fund had a positive overall budgetary variance of 24,246,976.

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 \$4,314,053 from 2018 to a balance of \$42,281,003 at December 31, 2019, 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 \$7,987,431 at December 31, 2019. This is a decrease of \$106,472 from December 31, 2018. This decrease is a result of a decrease in intergovernmental revenue in the current year.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

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 \$272 at December 31, 2019, no change for December 31, 2018 and was comprised of a mandatory debt service reserve account which was removed in 2017.

Capital Projects Fund (Major Fund)

The Capital Projects Fund accounts for activity related to acquisition, construction or reconstruction of County capital facilities and assets. Resources are derived primarily from proceeds of bond issues and capital grants. The County Capital Projects fund balance decreased from \$8,547,586 at December 31, 2018 to \$3,550,538 at December 31, 2019 as additional capital projects were completed.

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, 2019 were \$1,449,654.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of \$1,781,125 as of December 31, 2019. This is an increase of \$982,716 in the fund deficit of \$2,763,841 reported at December 31, 2018.

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 \$34,936,370 during 2019 resulting in Plan net position of \$256,937,210 at December 31, 2019. Plan net position was \$222,000,840 at December 31, 2018.

Plan contributions by members amounted to \$4,213,447 and \$4,168,373 in 2019 and 2018, respectively. Benefits paid to retired members were \$19,110,693 and \$18,495,211 in 2019 and 2018, 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 \$6,930,008 in that role as of December 31, 2019.

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

Capital Assets

The County's investment in capital assets at December 31, 2019 and 2018, net of accumulated depreciation, was \$97,308,581 and \$88,992,590 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, 2019 and 2018:

Capital Assets, Governmental Activities

December 31, 2019			
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	79,081,273	44,238,969	34,842,304
Airport	668,061	300,787	367,274
Land Improvements	528,339	73,064	455,275
Buildings and Improvements	95,548,027	48,160,848	47,387,179
Machinery and Equipment	24,458,864	19,029,412	5,429,452
Construction-in-Process	4,542,962	-	4,542,962
Total County-Wide	\$ 209,111,661	\$ 111,803,080	\$ 97,308,581
December 31, 2018			
	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	73,258,203	44,059,221	29,198,982
Airport	668,061	285,856	382,205
Land Improvements	528,339	49,886	478,453
Buildings and Improvements	92,751,483	45,058,243	47,693,240
Machinery and Equipment	23,844,955	18,895,704	4,949,251
Construction-in-Process	2,006,324	-	2,006,324
Total County-Wide	\$ 197,341,500	\$ 108,348,910	\$ 88,992,590

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

**COUNTY OF LUZERNE, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2019**

Long-Term Debt

As of December 31, 2019, the County's net general obligation debt was \$236,897,002 net of related discount and premium. Detailed information about the County's outstanding debt obligations can be found in Note 8 within the accompanying notes to the financial statements.

Economic Condition and Outlook

Luzerne County's 2019 results of operations is the fifth 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 five years.

The 2019 surplus is primarily the budgeted contingency of approximately 21,100,000 of bond proceeds. Luzerne County Council assigned \$3,000,000 to the capital projects and upcoming 911 upgrade. The County continues to make quarterly retirement payments on the ARC for 2019 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 Standard and Poor's credit rating increased to A- in 2019 which was an improvement from the 2017 Standard and Poor's rating of BBB-.

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, 2019**

	Governmental Activities	Component Units
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 54,707,170	\$ 26,008,087
Restricted Cash and Investments	1,532,554	-
Current Portion of Notes Receivable	1,167,182	-
Accounts Receivable, Net	5,403,472	12,773,360
Inventory	-	59,619
Due from Governments, Net	23,423,556	-
Due from Component Units	12,103	-
Taxes and Levee Receivable, Net	12,573,336	-
Prepaid Expenses	1,503,333	-
Other Assets	-	2,263
Total Current Assets	100,322,706	38,843,329
CAPITAL ASSETS, NET	97,308,581	43,614,335
ASSETS RESTRICTED FOR CAPITAL PROJECTS AND DEBT SERVICE	25,334,319	-
NOTES RECEIVABLE	30,348,998	-
OTHER NONCURRENT ASSETS	-	38,768
INVESTMENTS	-	10,214,560
Total Assets	253,314,604	92,710,992
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Bond Refunding	9,719,103	-
Postretirement Benefits	719,595	1,147,867
Pension	17,186,482	3,208,351
Total Deferred Outflows of Resources	27,625,180	4,356,218
Total Assets and Deferred Outflows of Resources	\$ 280,939,784	\$ 97,067,210

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2019**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>Governmental Activities</u>	<u>Component Units</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 22,581,282	\$ 3,972,183
Unpaid Claims Reserve	3,230,779	-
Accrued Interest Expense	930,510	-
Current Portion of Long-Term Liabilities:		
Bonds and Notes Payable	15,440,000	432,439
Net OPEB Liability	-	1,696,536
Compensated Absences	51,187	376,196
Due to Other Governments	915,808	7,995
Due to Agencies	206,511	-
Unearned Revenues	809,345	673,696
Total Current Liabilities	<u>44,165,422</u>	<u>7,159,045</u>
NONCURRENT LIABILITIES		
Bonds and Notes Payable, Net	221,457,002	9,503,956
Net Post-Retirement Benefit Liability	8,770,780	25,226,308
Advance Swap Payment	853,562	-
Investment Derivative - Pay Variable/Receive Variable Basis Swap	270,217	-
Net Pension Liability	102,777,470	15,680,174
Compensated Absences	4,684,711	1,504,784
Total Noncurrent Liabilities	<u>338,813,742</u>	<u>51,915,222</u>
 Total Liabilities	 382,979,164	 59,074,267
DEFERRED INFLOWS OF RESOURCES		
Postretirement Benefits	259,397	3,665,601
Pension	6,473,628	1,274,543
Total Deferred Inflows of Resources	<u>6,733,025</u>	<u>4,940,144</u>
NET POSITION		
Net Investment in Capital Assets	(39,489,590)	33,423,486
Restricted	49,122,136	2,538,420
Unrestricted	<u>(118,404,951)</u>	<u>(2,909,107)</u>
Total Net Position	<u>(108,772,405)</u>	<u>33,052,799</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 280,939,784</u>	 <u>\$ 97,067,210</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

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	\$ 8,365,109	\$ 3,568,857	\$ 2,501,785	\$ -	\$ (2,294,467)	
Judicial	36,043,739	1,330,314	-	-	(34,713,425)	
Corrections	36,211,382	836,969	-	-	(35,374,413)	
Other	7,347,728	3,484,087	-	-	(3,863,641)	
Intergovernmental Appropriations	8,161,117	-	-	-	(8,161,117)	
Public Safety	8,789,549	94,456	8,884,917	-	189,824	
Public Works	6,111,665	1,989,688	3,376,300	-	(745,677)	
Health and Human Services	93,372,855	1,667,499	77,630,733	-	(14,074,623)	
Culture and Recreation	3,042,327	-	-	-	(3,042,327)	
Community and Economic Development	10,502,479	-	7,647,507	-	(2,854,972)	
Unallocated Depreciation	4,455,864	-	-	-	(4,455,864)	
Interest on Long-Term Debt	9,783,826	-	-	-	(9,783,826)	
Cost of Debt Issuance	152,504	-	-	-	(152,504)	
Total Governmental Activities	<u>\$ 232,340,144</u>	<u>\$ 12,971,870</u>	<u>\$ 100,041,242</u>	<u>\$ -</u>	<u>(119,327,032)</u>	
Component Units						
Luzerne County Community College	\$ (69,248,385)	\$ 26,215,733	\$ 38,938,523	\$ 1,685,787		\$ (2,408,342)
Luzerne County Visitors Bureau	(728,619)	48,355	602,753	-		(77,511)
Total Component Units	<u>\$ (69,977,004)</u>	<u>\$ 26,264,088</u>	<u>\$ 39,541,276</u>	<u>\$ 1,685,787</u>		<u>(2,485,853)</u>
General Revenues and Transfers						
Property Taxes Levied for General Purposes, Net					122,600,437	-
Interest Revenue					700,802	289,217
Grants, Contributions, and Other Revenue not Restricted to Specific Programs					5,441,411	-
Miscellaneous Revenue					27,256	58,600
Gain on Disposal of Capital Assets					-	19,370
Change in Fair Value of Investment Derivative					321,706	-
Amortization of Advance Swap Payment					126,454	-
Transfers					80,377	-
Total General Revenues and Transfers					<u>129,298,443</u>	<u>367,187</u>
Change in Net Position					9,971,411	(2,118,666)
Net Position - Beginning - As Previously Reported					(122,300,301)	35,171,465
Prior Period Adjustment - Health and Human Services Funds					1,557,563	-
Prior Period Adjustment - General Fund					1,998,922	-
Net Position - Beginning - As Restated					<u>(118,743,816)</u>	<u>35,171,465</u>
Net Position - Ending					<u>\$ (108,772,405)</u>	<u>\$ 33,052,799</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	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	\$ 10,382,100	\$ 21,391,325	\$ 3,978,278	\$ -	\$ -	\$ 18,875,963	\$ 54,627,666
Restricted Cash and Investments	21,107,384	-	202,645	272	4,226,531	-	25,536,832
Accounts Receivable	1,948,116	189,671	1,437,841	-	-	1,787,955	5,363,583
Due from Other Funds	7,809,154	-	417,132	-	-	-	8,226,286
Notes Receivable	1,807,802	29,708,378	-	-	-	-	31,516,180
Due from Other Governments, Net	611,206	-	20,753,890	-	-	2,058,460	23,423,556
Due from Component Unit	12,103	-	-	-	-	-	12,103
Prepaid Expenses	1,412,203	-	91,130	-	-	-	1,503,333
Taxes Receivable, Net	12,573,336	-	-	-	-	-	12,573,336
Total Assets	\$ 57,663,404	\$ 51,289,374	\$ 26,880,916	\$ 272	\$ 4,226,531	\$ 22,722,378	\$ 162,782,875
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts Payable and Accrued Liabilities	\$ 7,258,531	\$ 150,204	\$ 10,247,127	\$ -	\$ 675,993	\$ 1,753,047	\$ 20,084,902
Accrued Payroll and Benefits	2,402,481	13,960	-	-	-	-	2,416,441
Due to Agencies	206,511	-	-	-	-	-	206,511
Due to Other Funds	-	29,637	7,487,551	-	-	709,098	8,226,286
Due to Other Governments	265,903	-	649,905	-	-	-	915,808
Other Payables	144,651	-	-	-	-	-	144,651
Compensated Absences	-	-	51,187	-	-	-	51,187
Unearned Revenues	-	-	457,715	-	-	287,138	744,853
Total Liabilities	10,278,077	193,801	18,893,485	-	675,993	2,749,283	32,790,639
DEFERRED INFLOWS OF RESOURCES							
Unavailable Tax Revenue	10,364,714	-	-	-	-	-	10,364,714
Unavailable Revenue - Loans	-	8,814,570	-	-	-	-	8,814,570
Total Deferred Inflows of Resources	10,364,714	8,814,570	-	-	-	-	19,179,284
FUND BALANCES							
Nonspendable	1,412,203	20,889,445	91,130	-	-	-	22,392,778
Restricted	22,915,186	21,391,558	7,896,301	272	3,550,538	9,228,823	64,982,678
Assigned	3,000,000	-	-	-	-	10,744,272	13,744,272
Unassigned	9,693,224	-	-	-	-	-	9,693,224
Total Fund Balances	37,020,613	42,281,003	7,987,431	272	3,550,538	19,973,095	110,812,952
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 57,663,404	\$ 51,289,374	\$ 26,880,916	\$ 272	\$ 4,226,531	\$ 22,722,378	\$ 162,782,875

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, 2019**

Total Fund Balances (Deficit) - Governmental Funds	\$	110,812,952
Amounts reported for governmental activities in the statement of net position are different because:		
Net deficit of the Internal Service fund is included in governmental activities since it primarily benefits the County's governmental activities.		(1,781,125)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		97,308,581
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.		10,364,714
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.		8,814,570
Deferred outflows of resources related to the net pension liability included in the statement of net position.		17,186,482
Deferred inflows of resources related to the net pension liability included in the statement of net position.		(6,473,628)
Deferred outflows of resources related to the net post-retirement benefit liability included in the statement of net position.		719,595
Deferred inflows of resources related to the net post-retirement benefit liability included in the statement of net position.		(259,397)
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	\$ 236,897,002	
Deferred Bond Refunding	(9,719,103)	
Net Post-Retirement Benefit Liability	8,770,780	
Advance Swap Payment	853,562	
Compensated Absences	4,684,711	
Net Pension Liability	<u>102,777,470</u>	(344,264,422)
The fair value of derivative instruments used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		(270,217)
Accrued interest payable is included in the statement of net position.		<u>(930,510)</u>
Total Net Position (Deficit) - Governmental Activities	\$	<u>(108,772,405)</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	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	\$ 120,506,548	\$ -	\$ -	\$ -	\$ 3,068,081	\$ 123,574,629
Payments in Lieu of Taxes	308,337	-	-	-	-	308,337
Intergovernmental	1,289,480	6,867,021	74,891,146	-	15,608,884	98,656,531
Charges for Service	5,303,144	1,000	3,093,335	-	1,536,970	9,934,449
Licenses and Permits	3,322,025	-	-	-	820,801	4,142,826
Fines and Forfeits	1,212,305	-	-	-	-	1,212,305
Interest and Rent	445,438	391,344	76,428	15,497	170,467	1,099,174
Contributions and Other	1,419,395	-	12,459	-	1,989,978	3,421,832
Total Revenues	<u>133,806,672</u>	<u>7,259,365</u>	<u>78,073,368</u>	<u>-</u>	<u>15,497</u>	<u>242,350,083</u>
Expenditures						
Current:						
General Government:						
Administration	8,801,659	-	1,165,923	-	-	9,967,582
Judicial	33,025,698	-	-	-	5,478,345	38,504,043
Corrections	34,687,793	-	-	-	-	34,687,793
Other	7,470,438	-	-	-	-	7,470,438
Public Safety	1,326,547	-	-	-	6,917,958	8,244,505
Public Works	4,374,558	-	-	-	8,794,728	13,169,286
Community and Economic Development	-	11,573,418	-	-	-	11,573,418
Culture and Recreation	-	-	-	-	3,042,327	3,042,327
Health and Human Services	71,710	-	85,177,150	-	-	85,248,860
Intergovernmental Appropriations	8,161,117	-	-	-	-	8,161,117
Debt Service:						
Principal	-	-	-	14,695,000	-	14,695,000
Interest	-	-	-	10,647,584	-	10,647,584
Note Issuance Costs	-	-	-	152,504	-	152,504
Capital Outlay	-	-	-	4,467,674	-	4,467,674
Total Expenditures	<u>97,919,520</u>	<u>11,573,418</u>	<u>86,343,073</u>	<u>25,495,088</u>	<u>4,467,674</u>	<u>250,032,131</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	35,887,152	(4,314,053)	(8,269,705)	(25,495,088)	(4,452,177)	(1,038,177)
OTHER FINANCING SOURCES (USES)						
Proceeds of Refunding Bonds	-	-	-	33,305,000	-	33,305,000
Payment of Refunded Bonds	-	-	-	(12,045,112)	-	(12,045,112)
Transfers In	23,645,796	-	8,163,233	25,342,584	1,866,634	59,018,247
Transfers Out	(35,285,972)	-	-	(21,107,384)	(544,871)	(58,931,768)
Total Other Financing Sources (Uses)	<u>(11,640,176)</u>	<u>-</u>	<u>8,163,233</u>	<u>25,495,088</u>	<u>(544,871)</u>	<u>21,346,367</u>
NET CHANGE IN FUND BALANCES	24,246,976	(4,314,053)	(106,472)	-	(4,997,048)	(1,165,084)
Fund Balances - Beginning	10,774,715	46,595,056	6,536,340	272	8,547,586	21,138,179
Prior Period Adjustment - Health and Human Service Funds	-	-	1,557,563	-	-	1,557,563
Prior Period Adjustment - General Fund	1,998,922	-	-	-	-	1,998,922
Fund Balances - Beginning - As Restated	<u>12,773,637</u>	<u>46,595,056</u>	<u>8,093,903</u>	<u>272</u>	<u>8,547,586</u>	<u>21,138,179</u>
FUND BALANCES - ENDING	<u>\$ 37,020,613</u>	<u>\$ 42,281,003</u>	<u>\$ 7,987,431</u>	<u>\$ 272</u>	<u>\$ 3,550,538</u>	<u>\$ 19,973,095</u>
	<u>\$ 110,812,952</u>	<u>\$ 110,812,952</u>	<u>\$ 110,812,952</u>	<u>\$ 110,812,952</u>	<u>\$ 110,812,952</u>	<u>\$ 110,812,952</u>

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, 2019**

Total Net Change in Fund Balances - Governmental Funds	\$	13,664,319
Amounts reported for governmental activities in the statement of activities are different because:		
Change in net position of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.		982,716
Capital asset additions are reported as expenditures in the governmental funds.		13,073,843
Depreciation expense on capital assets is reported in the statement of activities.		(4,560,891)
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 2019.		(196,960)
Because some property taxes will not be collected for several months after the County's calendar year-end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues decreased by the amount during the year.		(1,035,697)
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.		388,142
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	\$ 14,695,000	
Issuance of New Debt	(33,305,000)	
Debt Refunding Payment	11,985,000	
Net Change in Bond Premiums, Discounts and Deferred Gain	823,377	
Amortization of Advance Swap Payment	126,454	
Change in Accrued Interest on Bonds Payable	100,493	(5,574,676)
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.		321,706
In the statement of activities, certain operating expenses - OPEB, are measured by the amounts contributed towards future benefits 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 OPEB liability and deferred outflow and inflow of resources during the current period.		(272,050)
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.		(143,697)
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.		(6,675,344)
Change in Net Position of Governmental Activities	\$	9,971,411

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF NET DEFICIT – PROPRIETARY FUND
DECEMBER 31, 2019**

	<u>Internal Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 79,504
Restricted Investments	1,330,042
Other Receivables	<u>40,108</u>
Total Assets	<u><u>\$ 1,449,654</u></u>
LIABILITIES AND NET DEFICIT	
UNPAID CLAIMS RESERVE	\$ 3,230,779
NET DEFICIT	
Unrestricted	<u>(1,781,125)</u>
Total Liabilities and Net Deficit	<u><u>\$ 1,449,654</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, 2019**

	<u>Internal Service Fund</u>
OPERATING REVENUES	
Charges for Services	\$ 1,326,599
OPERATING EXPENSES	
Workers' Compensation Claims	<u>349,774</u>
Total Operating Expenses	<u>349,774</u>
OPERATING INCOME	976,825
NONOPERATING REVENUES	
Interest Income	<u>5,891</u>
Total Nonoperating Revenues	<u>5,891</u>
CHANGE IN NET POSITION	982,716
Net Deficit - Beginning of Year	<u>(2,763,841)</u>
NET DEFICIT - END OF YEAR	<u><u>\$ (1,781,125)</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2019**

	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 1,322,349
Cash Payments for Insurance Claims	<u>(1,297,873)</u>
Net Cash Provided by Operating Activities	24,476
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	5,891
Purchases of Investments	<u>(146,304)</u>
Net Cash Used in Investing Activities	<u>(140,413)</u>
NET DECREASE IN CASH	(115,937)
Cash - Beginning of Year	<u>195,441</u>
CASH - END OF YEAR	<u><u>\$ 79,504</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 976,825
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Other Receivables	(4,250)
Unpaid Claims Reserve	<u>(948,099)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 24,476</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2019**

	Pension Trust Fund	Agency Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 6,723,955	\$ 6,930,008	\$ 13,653,963
Accrued Interest	(12,485)	-	(12,485)
Investments, at Fair Value:			
U.S. Government Securities	10,344,937	-	10,344,937
Mutual Funds	74,399,270	-	74,399,270
Domestic Common Stock	19,740,226	-	19,740,226
International Stock	25,150,824	-	25,150,824
Exchange Traded Funds	42,480,843	-	42,480,843
Corporate Bonds	21,849,287	-	21,849,287
Mutual Bonds	5,650,588	-	5,650,588
Alternative Investments	50,609,765	-	50,609,765
Total Investments	<u>250,225,740</u>	<u>-</u>	<u>250,225,740</u>
 Total Assets	<u>\$ 256,937,210</u>	<u>\$ 6,930,008</u>	<u>\$ 263,867,218</u>
 LIABILITIES AND NET POSITION			
LIABILITIES			
Funds Held in Fiduciary Capacity	\$ -	\$ 6,930,008	\$ 6,930,008
 NET POSITION			
Net Position Restricted for Pension	<u>256,937,210</u>	<u>-</u>	<u>256,937,210</u>
 Total Liabilities and Net Position	<u>\$ 256,937,210</u>	<u>\$ 6,930,008</u>	<u>\$ 263,867,218</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2019**

	<u>Pension Trust Fund</u>
ADDITIONS	
CONTRIBUTIONS	
Employer	\$ 13,393,047
Plan Members	<u>4,213,447</u>
Total Contributions	17,606,494
INVESTMENT INCOME	
Net Appreciation in Fair Value of Investments	29,611,468
Realized Gain	5,548,766
Interest	1,071,488
Dividends	3,334,194
Investment Expense	(535,137)
Miscellaneous	<u>295,524</u>
Net Investment Income	<u>39,326,303</u>
Total Additions	56,932,797
DEDUCTIONS	
Benefits Paid	19,110,693
Death Benefits Paid	1,996,303
Participant Contributions Refunded	769,810
Administrative Expenses	<u>119,621</u>
Total Deductions	<u>21,996,427</u>
CHANGE IN NET POSITION	34,936,370
Net Position - Beginning of Year	<u>222,000,840</u>
NET POSITION - END OF YEAR	<u><u>\$ 256,937,210</u></u>

See accompanying Notes to Financial Statements.

COUNTY OF LUZERNE, PENNSYLVANIA
COMBINING BALANCE SHEET – DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2019

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 25,250,093	\$ 757,994	\$ 26,008,087
Accounts Receivable	12,694,776	78,584	12,773,360
Inventory	59,619	-	59,619
Other Assets	2,263	-	2,263
Total Current Assets	<u>38,006,751</u>	<u>836,578</u>	<u>38,843,329</u>
LONG-TERM INVESTMENTS	10,214,560	-	10,214,560
CAPITAL ASSETS, NET	43,614,335	-	43,614,335
OTHER ASSETS	38,768	-	38,768
Total Assets	91,874,414	836,578	92,710,992
DEFERRED OUTFLOWS OF RESOURCES			
Postretirement Benefits	1,147,867	-	1,147,867
Pension	3,208,351	-	3,208,351
Total Assets and Deferred Outflows of Resources	<u>\$ 96,230,632</u>	<u>\$ 836,578</u>	<u>\$ 97,067,210</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 607,691	\$ 66,462	\$ 674,153
Accrued Expenses	3,298,030	-	3,298,030
Due to Other Governments	-	7,995	7,995
Current Portion of Long-Term Debt	432,439	-	432,439
Current Portion of Compensation Absences	376,196	-	376,196
Current Portion of OPEB Liability	1,696,536	-	1,696,536
Unearned Revenue	673,696	-	673,696
Total Current Liabilities	<u>7,084,588</u>	<u>74,457</u>	<u>7,159,045</u>
LONG-TERM DEBT	9,503,956	-	9,503,956
COMPENSATED ABSENCES	1,504,784	-	1,504,784
LIABILITY FOR POST-RETIREMENT BENEFITS	25,226,308	-	25,226,308
NET PENSION LIABILITY	15,680,174	-	15,680,174
Total Liabilities	58,999,810	74,457	59,074,267
DEFERRED INFLOWS OF RESOURCES			
Post-Retirement Benefits	3,665,601	-	3,665,601
Pension	1,274,543	-	1,274,543
NET POSITION			
Net Investment in Capital Assets	33,423,486	-	33,423,486
Restricted	2,538,420	-	2,538,420
Unrestricted	(3,671,228)	762,121	(2,909,107)
Total Net Position	<u>32,290,678</u>	<u>762,121</u>	<u>33,052,799</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 96,230,632</u>	<u>\$ 836,578</u>	<u>\$ 97,067,210</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, 2019**

	Luzerne County Community College	Luzerne County Visitors Bureau	Totals
REVENUES			
Charges for Services	\$ 26,215,733	\$ 48,355	\$ 26,264,088
Interest Income	278,950	10,267	289,217
Operating Grants and Contributions	38,938,523	602,753	39,541,276
Gain on Sale of Assets	19,370	-	19,370
Capital Grants and Contributions	1,685,787	-	1,685,787
Other Income	-	58,600	58,600
Total Revenues	<u>67,138,363</u>	<u>719,975</u>	<u>67,858,338</u>
EXPENSES			
Culture and Recreation	-	728,619	728,619
Education and General	64,691,644	-	64,691,644
Debt Service	646,150	-	646,150
Unallocated Depreciation and Amortization	3,910,591	-	3,910,591
Total Expenses	<u>69,248,385</u>	<u>728,619</u>	<u>69,977,004</u>
CHANGE IN NET POSITION	(2,110,022)	(8,644)	(2,118,666)
NET POSITION - BEGINNING OF YEAR	<u>34,400,700</u>	<u>770,765</u>	<u>35,171,465</u>
NET POSITION - END OF YEAR	<u>\$ 32,290,678</u>	<u>\$ 762,121</u>	<u>\$ 33,052,799</u>

See accompanying Notes to Financial Statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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, 2019**

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, 2019**

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, health care, 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 units 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, 2019**

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 the General Fund, Debt Service and Capital Projects are restricted for the funds restrictive purpose.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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 \$1,093,000 at December 31, 2019.

The Hotel Room Rental Tax Fund, a nonmajor fund, charges a rental fee for hotel occupancy. At December 31, 2019, the Hotel Room Rental Tax Fund had receivables of approximately \$235,000 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.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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.

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, deferred outflows of resources related to the net pension liability, and deferred outflows of resources related to the other postemployment benefits, as deferred outflows.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

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 and net other postemployment benefit liabilities 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.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Balance Classifications/Policies and Procedures (Continued)

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.

Classification of Net Position

The government-wide, internal service fund and fiduciary funds classify net position into three components:

- Net investment in capital assets: This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction or improvements of those assets.
- Restricted: This component of net position consists of constraints placed on assets through external restrictions or enabling legislation.
- Unrestricted: This component of net position consists of assets that do not meet the definition of restricted or net investment in capital assets.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2019

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, 2019, 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, 2019**

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 2019, 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 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, 2019**

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 \$306,524 and \$285,313 for the years ended December 31, 2019 and 2018, respectively. The Airport's net position totaled \$98,225,531 as of December 31, 2019 (unaudited) and \$98,066,943 as of December 31, 2018.

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, 2019**

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 Federal Deposit Insurance Corporation (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, 2019, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$65,976,811 compared to the carrying amount of \$63,166,461. The difference is caused by items in-transit and outstanding checks. A total of \$59,767,071 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. A total of \$263,422 of the County's deposits were both uninsured and uncollateralized.

At December 31, 2019, the bank and carrying balance of the County's pension deposits with financial institutions, including cash equivalents, was \$6,723,955, which was fully collateralized.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

Restricted Cash and Investments

As of December 31, 2019, 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>
General Fund:		
Restricted Cash	N/A	\$ 21,107,384
Debt Service:		
Federated Treasury Obligation (Bond)	N/A	272
Capital Projects:		
Wilmington U.S. Government Money Market Fund	N/A	1,498,415
Restricted Cash	N/A	2,728,116
Health and Human Services Fund:		
Restricted Cash	N/A	202,645
Internal Service Fund:		
Money Market Funds	N/A	<u>1,330,042</u>
Total		<u><u>\$ 26,866,874</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, 2019.

<u>Investment</u>	<u>Value</u>	<u>Moody's Rating</u>	<u>%</u>
U.S. Government Obligations (Level 1)	\$ 272	AA+	100%

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments

As of December 31, 2019, the County's pension investments are classified as investments and are carried at fair market value and consist of the following:

	Level 1	Level 2	Level 3	Total
U.S. Government Notes and Bonds	\$ 10,344,937	\$ -	\$ -	\$ 10,344,937
Mutual Funds	74,399,270	-	-	74,399,270
Domestic Common Stock	19,740,226	-	-	19,740,226
International Stock	25,150,824	-	-	25,150,824
Exchange Traded Funds and Closed-End Funds	42,480,843	-	-	42,480,843
Corporate Bonds	-	21,849,287	-	21,849,287
Municipal Bonds	-	5,650,588	-	5,650,588
Total	<u>\$ 172,116,100</u>	<u>\$ 27,499,875</u>	<u>\$ -</u>	199,615,975
Alternative Investments				50,609,765
Total Investments				<u>\$ 250,225,740</u>

The County pension plan uses the following valuation techniques to measure the fair value of its investments. U.S. government notes and bonds, mutual funds, domestic common stock, international stock, and exchange traded funds and closed end funds are valued using quoted market prices (Level 1 inputs). Corporate bonds and municipal bonds are valued by a third party as of the latest trade date (Level 2 inputs). Alternative investments are valued using the net asset value per share as determined by investment managers. This practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

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):

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period
Alternative Investments:			
Axonic Credit Fund	\$ 7,234,149	Quarterly	90 Days
Balyasny Atlas Global Fund	1,026,424	Quarterly	65 Days
Canyon Value Realization Fund (Cayman), Ltd.	4,180,185	Not Applicable	Not Applicable
GoldenTree Select Fund	4,137,633	Annual	90 Days
Skybridge Series G Fund	8,237,600	Not Applicable	Not Applicable
WMQS Global Equity Active Extension Offshore Fund, Ltd.	5,339,347	Monthly	30 Days
Private Equity Funds:			
Millennium International Ltd.	11,814,510	Not Applicable	Not Applicable
Hamilton Lane Private Markets Opportunity Fund LP	5,553,039	Not Applicable	Not Applicable
Cowen Healthcare Investments III LP	409,125	Not Applicable	Not Applicable
Fortress Lending Fund	2,677,753	Not Applicable	Not Applicable

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

There were no unfunded commitments at December 31, 2019.

The Axonic Credit seeks to generate superior risk-adjusted returns by selectively sourcing assets that have risk-mitigation qualities to many underlying mortgage, macro-economic and real estate factors. The Fund is actively traded to seek alpha, and employ hedges that seek to mitigate price action. The Fund makes use of proprietary credit and mortgage technology which allows for the examination of extensive collateral detail and to contemplate multiple home price paths across varying scenarios.

The Balyasny Atlas Global is managed by approximately 46 portfolio management teams, each autonomously managing fund's capital within predetermined portfolio parameters and risk and return targets. A separate risk management team monitors the risk and the quality of returns, reporting to the manager's investment committee that is responsible for all asset allocation and team development decisions. A large majority of the fund's exposure is in equities, with the balance pursuing macro and high yield credit strategies.

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 GoldenTree Select seeks to achieve superior risk-adjusted total returns by investing primarily in public and private non-investment grade and nonrated debt securities. The Fund seeks to identify the most attractive portion of the capital structure through which to exploit mispricing's in the market. The securities and other instruments acquired by the Fund may include all types of debt obligations and may have varying terms with respect to collateralization, seniority or subordination, purchase price, convertibility, interest payments and maturity.

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.

The WMQS Global Equity Active Extension Offshore Fund, Ltd generally expects to (i) maintain the Master Fund's net equity exposure, which is the value of the Fund's long positions minus its short positions, generally at approximately 100% in aggregate, with approximately 170% long exposure and 70% short exposure (ii) target having the average number of positions (both long and short positions) in the range of 600-1000, which may vary depending on the composition of the MSCI World Net Daily Total Return Index; (iii) target an average daily turnover of the portfolio on a gross market value basis of less than 1%; and (iv) target a realized annual tracking error of between 3% and 4%.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

Millennium International's strategy is global and highly diversified, with a focus on investment strategies that exploit market inefficiencies to produce absolute return with low correlation to global capital markets. The manager seeks to deliver absolute returns with relatively low volatility by focusing on a high level of diversification, tight control of directional market exposures, and a risk management framework that can result in a high level of liquidity and systematic movement of capital based on real-time trading profit and losses.

Hamilton Lane Private Markets Opportunity Fund LP is a private, independent firm providing private market investment management services to investors around the world. Spanning 12 offices and 250+ employees, Hamilton Lane oversees \$252B in advisory assets making them one of the largest allocators of private market capital in the world. Leveraging Hamilton Lane's team of over 80 investment professionals, their investment teams identify and prepare investment diligence on private markets opportunities. Hamilton Lane will utilize multiple investment strategies, vintage years and geographies across primary fund investments, secondaries, and co-investments.

Cowen Healthcare Investments III LP is the parent entity of Cowen and Company LLC (Cowen and Company), an industry leading investment bank. Notably, Cowen and Company is one of the leading advisors to health care companies, having raised over \$90 billion in equity capital for health care Companies since the start of 2015. Additionally, Cowen is well known for its research on the health care sector, publishing research on over 230 health care stocks, ranging from biotechnology, pharmaceuticals, and medical device companies to insurers.

The Fortress Lending Fund's Credit team includes over 160 investment professionals, over 115 asset managers, and over 210 corporate professionals across the accounting, operations, trading, treasury, risk management, information technology, legal, compliance and support teams. Fortress Credit has a long and established track record investing across a wide range of industries and asset classes throughout a number of credit cycles, and has provided or participated in over \$50 billion of financings since 2006.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

County Pension Investments (Continued)

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, 2019, the County's pension plan did not have any investments that exceeded the above concentration policies.

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, 2019, 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 of Investment Type</u>
U.S. Government Notes and Bonds	AAA	24%
U.S. Government Notes and Bonds	Not Rated	76%
Corporate Bonds	AAA	13%
Corporate Bonds	AA1	1%
Corporate Bonds	AA2	7%
Corporate Bonds	AA3	15%
Corporate Bonds	A1	8%
Corporate Bonds	A2	8%
Corporate Bonds	A3	15%
Corporate Bonds	BAA1	17%
Corporate Bonds	BAA2	12%
Corporate Bonds	BAA3	1%
Corporate Bonds	BBB	1%
Corporate Bonds	BBB-	1%
Corporate Bonds	Not Rated	1%
Municipal Bonds	AAA	35%
Municipal Bonds	AA1	33%
Municipal Bonds	AA2	16%
Municipal Bonds	A2	5%
Municipal Bonds	Not Rated	11%

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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, 2019, 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	\$ 10,344,937	\$ 375,430	\$ 251,878	\$ 1,202,575	\$ 8,515,054
Corporate Bonds	21,849,287	50,561	4,444,171	2,863,960	14,490,595
Municipal Bonds	5,650,588	301,910	-	2,268,630	3,080,048
Total	<u>\$ 37,844,812</u>	<u>\$ 727,901</u>	<u>\$ 4,696,049</u>	<u>\$ 6,335,165</u>	<u>\$ 26,085,697</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.

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, 2019, the bank balance of LCCC's deposits with financial institutions was \$26,291,837 compared to the carrying amount of \$25,250,093, excluding petty cash totaling \$7,800. The difference is caused by items in-transit and outstanding checks. \$26,041,837 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, 2019**

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 2019 are recorded as receivables, net of estimated uncollectible amounts. The net receivables collected during 2019 and expected to be collected within the first sixty (60) days of 2019 are recognized as revenue in 2019. 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 2019 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, 2019 were approximately \$13,667,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$1,093,000.

NOTE 5 DUE FROM OTHER GOVERNMENTS

Due from other governments of \$23,423,556 consist of amounts due from the Commonwealth of Pennsylvania and various other local governments.

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, 2019 consists of the following:

Business Development Loans	\$ 20,061,740
First Time Home Buyer Loans	4,363
Total Business Development Loans	\$ 20,066,103

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

HOME Program Notes Receivable

HOME Program notes receivable result from loans used for the acquisition and/or rehabilitation of rental properties that will contain at least two rental units. If the participant complies with all program regulations, either the full or partial 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, 2019 was \$9,642,275.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended December 31, 2019 was as follows:

	January 1, 2019	Acquisitions	Disposals	Transfer	December 31, 2019
Capital Assets Not Being Depreciated:					
Land	\$ 4,284,135	\$ -	\$ -	\$ -	\$ 4,284,135
Construction-in-Progress	2,006,323	5,552,402	-	(3,015,763)	4,542,962
Total Capital Assets Not Being Depreciated:	6,290,458	5,552,402	-	(3,015,763)	8,827,097
Capital Assets Being Depreciated:					
Infrastructure	73,258,202	4,586,420	(434,634)	1,671,285	79,081,273
Airport	668,061	-	-	-	668,061
Land Improvements	528,339	-	-	-	528,339
Buildings and Improvements	92,751,483	1,883,386	(291,320)	1,204,478	95,548,027
Machinery and Equipment	23,844,955	1,051,635	(577,726)	140,000	24,458,864
Total Capital Assets Being Depreciated	191,051,040	7,521,441	(1,303,680)	3,015,763	200,284,564
Less: Accumulated Depreciation:					
Infrastructure	(44,059,221)	(552,959)	373,211	-	(44,238,969)
Airport	(285,856)	(14,931)	-	-	(300,787)
Land Improvements	(49,886)	(23,178)	-	-	(73,064)
Buildings and Improvements	(45,058,243)	(3,283,878)	181,273	-	(48,160,848)
Machinery and Equipment	(18,895,703)	(685,945)	552,236	-	(19,029,412)
Total Accumulated Depreciation	(108,348,909)	(4,560,891)	1,106,720	-	(111,803,080)
Net Capital Assets Being Depreciated	82,702,131	2,960,550	(196,960)	3,015,763	88,481,484
Governmental Activities Capital Assets, Net	<u>\$ 88,992,589</u>	<u>\$ 8,512,952</u>	<u>\$ (196,960)</u>	<u>\$ -</u>	<u>\$ 97,308,581</u>

Depreciation expense was charged to governmental activities in the statement of activities at December 31, 2019 as follows:

Unallocated	\$ 4,455,864
Health and Human Services	105,027
Total	<u>\$ 4,560,891</u>

At December 31, 2019, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$4,543,000 which is included in construction-in-progress at December 31, 2019. The County is committed to additional costs of approximately \$22,071,000 related to these projects.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 7 CAPITAL ASSETS (CONTINUED)

Component Unit – Luzerne County Community College

Capital asset activity for LCCC for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 1,382,185	\$ -	\$ -	\$ 1,382,185
Total Capital Assets Not Being Depreciated	1,382,185	-	-	1,382,185
Capital Assets Being Depreciated:				
Permanent Campus Furniture and Fixtures	86,917,806	1,087,412	-	88,005,218
Equipment	3,429,818	286,083	-	3,715,901
Library Books	27,833,354	1,022,749	(32,882)	28,823,221
Microfilm and AV Equipment	2,173,683	-	-	2,173,683
Motor Vehicles	764,335	104,129	-	868,464
	715,530	24	(56,115)	659,439
Total Capital Assets Being Depreciated	121,834,526	2,500,397	(88,997)	124,245,926
Less: Accumulated Depreciation	(78,192,182)	(3,910,591)	88,997	(82,013,776)
Total Capital Assets Being Depreciated, Net	43,642,344	(1,410,194)	-	42,232,150
Component Unit Capital Assets, Net	<u>\$ 45,024,529</u>	<u>\$ (1,410,194)</u>	<u>\$ -</u>	<u>\$ 43,614,335</u>

Depreciation expense was \$3,910,591 for the year ended June 30, 2019.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 8 LONG-TERM OBLIGATIONS

Description	January 1, 2019	Additions	Refunding/ Payments	December 31, 2019	Current Portion (Due in 2020)
(a) 2003 General Obligation Bonds, Series C	\$ 4,065,000	\$ -	\$ (1,525,000)	\$ 2,540,000	\$ 1,600,000
(b) 2008 General Obligation Bonds, Series D	1,700,000	-	(1,700,000)	-	-
(c) 2008 General Obligation Bonds, Series E	1,760,000	-	(1,760,000)	-	-
(d) 2009 General Obligation Notes	5,405,000	-	(5,405,000)	-	-
(e) 2009 General Obligation Bonds	4,555,000	-	(4,555,000)	-	-
(f) 2015 General Obligation Refunding Bonds, Series A	93,350,000	-	(3,215,000)	90,135,000	3,405,000
(g) 2015 General Obligation Refunding Bonds, Series B	14,190,000	-	(3,760,000)	10,430,000	3,950,000
(h) 2017 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds, Series A	835,000	-	(835,000)	-	-
(i) 2017 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds	35,400,000	-	(2,060,000)	33,340,000	3,010,000
(j) 2017 General Obligation Refunding Bonds, Series A	37,495,000	-	(1,085,000)	36,410,000	2,135,000
(k) 2017 General Obligation Refunding Bonds, Series B	13,220,000	-	(780,000)	12,440,000	1,300,000
(l) 2019 General Obligation Notes	-	33,305,000	-	33,305,000	40,000
Total	<u>211,975,000</u>	<u>33,305,000</u>	<u>(26,680,000)</u>	<u>218,600,000</u>	<u>15,440,000</u>
Plus: Bond Premiums	20,523,382	-	(2,226,380)	18,297,002	-
Less: Bond Discount	(58,753)	-	58,753	-	-
Less: Deferred Refunding Amount	<u>(11,063,353)</u>	<u>(50,339)</u>	<u>1,394,589</u>	<u>(9,719,103)</u>	<u>-</u>
Total	<u>\$ 221,376,276</u>	<u>\$ 33,254,661</u>	<u>\$ (27,453,038)</u>	<u>\$ 227,177,899</u>	<u>\$ 15,440,000</u>

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. \$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. Series D of 2008 was refunded in 2019.

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

- c. \$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. Series E of 2008 was refunded in 2019.
- d. \$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. Series of 2009 was refunded in 2019.
- e. \$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. Series of 2009 was refunded in 2019.
- f. \$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, 2019

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

- g. \$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 eight years by approximately \$737,698, resulting in a net economic gain of approximately \$577,177.

- h. \$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 "j" below.
- i. \$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.

- j. \$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, 2019**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Governmental Activities (Continued)

k. \$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.

l. \$33,305,000 General Obligation Notes (Series of 2019) with annual principal payments and semi-annual interest payments with an interest rate of 2.174%. The notes mature in 2030 and the proceeds of the notes were used towards the current refunding of the County's outstanding General Obligation Bonds, Series D of 2008 (\$1,695,000), Series E of 2008 (\$1,755,000), Series 2009 (\$3,135,000); current refunding of the County's outstanding General Obligation Notes, Series 2009 (\$5,400,000); the funding of new election machines and new 911 digital equipment; and the payment of costs, fees, and expenses related to the issuance of the notes.

This refunding reduced the County's total debt service payments over the next seven years by approximately \$3,126,367, resulting in a net economic gain of approximately \$3,020,093.

Interest paid on these bonds and notes during the year ended December 31, 2019 amounted to \$10,647,584.

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, 2019. 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>
2020	\$ 15,440,000	\$ 9,846,119	\$ 25,286,119
2021	17,895,000	9,168,906	27,063,906
2022	19,170,000	8,272,165	27,442,165
2023	20,090,000	7,353,538	27,443,538
2024	20,855,000	6,480,145	27,335,145
2025 - 2029	119,095,000	16,381,910	135,476,910
2030	6,055,000	131,636	6,186,636
Total	<u>\$ 218,600,000</u>	<u>\$ 57,634,419</u>	<u>\$ 276,234,419</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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, 2019, the amount of defeased bonds outstanding was \$67,340,000.

At December 31, 2019, the following bonds outstanding had been defeased by the County:

Series	Final Maturity	Outstanding Principal at December 31, 2019
LCIDA Lease Revenue Bonds, Series of 2008	2027	\$ 10,360,000
LCIDA Lease Revenue Bonds, Series of 2009	2027	14,340,000
General Obligation Bonds, Series A of 2008	2027	30,140,000
General Obligation Bonds, Series B of 2008	2027	12,500,000
Total		\$ 67,340,000

Component Unit – Luzerne County Community College

At June 30, 2019, LCCC's long-term debt obligations were as follows:

Description	July 1, 2018	Additions	Payments	June 30, 2019	Current Portion
General Municipal Authority of the City of Nanticoke Original Loan Agreement Lease and Sublease Agreement 2017	\$ 7,993,367	\$ -	\$ 267,410	\$ 7,725,957	\$ 290,373
Hazleton Area Industrial Authority Guaranteed College Revenue Note 2011	2,347,760	-	137,322	2,210,438	142,066
Total	\$ 10,341,127	\$ -	\$ 404,732	\$ 9,936,395	\$ 432,439

Specific information on each LCCC debt instrument is as follows:

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Component Unit – Luzerne County Community College (Continued)

In 2017, the General Municipal Authority of the City of Nanticoke and US Bancorp Government Leasing and Finance, Inc. entered into a Lease and Sublease Agreement for the financing of the Guaranteed Energy Savings Agreement (GESA) for \$7,993,367. 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.

The following summarizes LCCC's estimated future debt service requirements on these bonds and note payable as of June 30, 2019.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 432,439	\$ 304,654	\$ 737,093
2021	520,375	289,682	810,057
2022	556,378	272,567	828,945
2023	594,064	254,338	848,402
2024	633,293	234,749	868,042
Thereafter	7,199,846	1,047,211	8,247,057
Total	<u>\$ 9,936,395</u>	<u>\$ 2,403,201</u>	<u>\$ 12,339,596</u>

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Basis Swaps (Continued)

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	\$ (162,146)	10/1/2026	Aa2/A+
Series A of 2006	PNC	40,000,000	6/1/2013	67% LIBOR	SIFMA	(108,071)	10/1/2026	A2/A
Total		<u>\$ 100,000,000</u>				<u>\$ (270,217)</u>		

At December 31, 2019, 67% LIBOR rate was 1.71% and the SIFMA rate was 1.32%.

Fair Value

At December 31, 2019, the basis swaps had an aggregate negative fair value of \$(270,217), 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, 2019, the County was not exposed to credit risk because the basis swaps (the swaps) had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Basis Swaps (Continued) (Continued)

Credit Risk (Continued)

The basis swap transaction exposes the County to credit (default) risk. Because the County currently has a credit rating (A-), 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, 2019, 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.

Interest Rate Risk

The basis swap transaction exposes the County to interest rate risk. If the percentage of the One-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, 2019, the associated debt used a variable rate of interest based on 67% of the 1-Month LIBOR rate and the counterparty's payment rate used the SIFMA index. As a result, the County is exposed to basis risk on its investment derivative.

Termination Risk

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

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 10 COMPENSATED ABSENCES

The changes in the County's compensated absences in 2019 are summarized as follows:

Balance - January 1, 2019	\$ 4,541,014
Increase	5,110,877
Decrease	<u>(4,967,180)</u>
Balance - December 31, 2019	<u>\$ 4,684,711</u>

The County pays its compensated absences from the General Fund.

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). 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

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.

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 \$4,213,447 to the Plan for the year ended December 31, 2019.

The County is required to contribute at an actuarially determined rate. The actuarially determined contribution is funded by various County departments and the Airport based on a contribution percentage. The contribution percentage for each contributing entity is determined by taking the total covered payroll of the respective department or Airport 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 \$13,330,000 to the Plan for the year ended December 31, 2019.

The annual required contribution was determined based on the most recent annual actuarial valuation dated December 31, 2018. The actuarial assumptions included (a) 7.00% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.0% (plus service based increases) 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 3.0%. The actuarial value of the Plan's assets was market value adjusted for unrecognized gains and losses from prior years.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

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

At December 31, 2019, the County reported a total net pension liability of \$102,777,470 for its participation in the Plan. The net pension liability attributed to participation in the Plan was measured as of December 31, 2019, except for the net pension liability related to the Fiscal Programs, which were measured as of December 31, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, except for the total pension liability related to the Fiscal Programs, which were determined by an actuarial valuation as of December 31, 2017. The County's proportion of the Plan net pension liability was determined by taking the total covered payroll of the respective department or Airport and dividing it by the total covered payroll of all contributing entities for the year. At December 31, 2019, the County's reported proportionate share of the Plan's net pension liability was 98.48%, which was an increase of 0.12% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2019, the County recognized pension expense of \$19,868,232. At December 31, 2019, 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	\$ 752,421	\$ -
Difference Between Expected and Actual Experience	2,007,480	5,741,530
Change in Actuarial Assumptions	13,025,975	-
Contributions Made Subsequent to Measurement Date	647,239	-
Change in Proportion	753,367	732,098
Total	<u>\$ 17,186,482</u>	<u>\$ 6,473,628</u>

The \$647,239 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, 2020. 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>
2020	\$ 2,604,810
2021	3,105,242
2022	2,244,081
2023	2,107,080
2024	4,402
Total	<u>\$ 10,065,615</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability at December 31, 2019 was determined as part of an actuarial valuation as of December 31, 2018, with liabilities measured at December 31, 2019, using the following actuarial assumptions, applied to all periods in the measurement:

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	7.00%, 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
Asset Valuation Method	Fair (Market) Value

The total pension liability at December 31, 2018 was determined as part of an actuarial valuation as of December 31, 2017, with liabilities measured at December 31, 2018, using the following actuarial assumptions, applied to all periods in the measurement:

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	7.00%, 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
Asset Valuation Method	Fair (Market) Value

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2017. The next assumption review is scheduled for 2023. 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 assets classes.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

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, 2019:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	30.00 %	1.65 %
Domestic Equity	33.00 %	5.75
International Equity	20.00 %	6.25
Alternative Investments	15.00 %	7.50
Cash, Short-Term Funds	02.00 %	0.40

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, 2019, the annual money-weighted rate of return on Plan investments, net of investment expense was 17.9%.

Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.00%. 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 and Airport 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate	1% Increase (8.00%)
Net Pension Liability	\$ 145,427,134	\$ 102,777,470	\$ 62,755,566

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 (32.60% of covered payroll for the year ended June 30, 2019).

SERS

Most 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 most full-time LCCC employees. SERS provides retirement, death, and disability benefits according to statute. Retirement benefits vest after five years of credited service.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

SERS (Continued)

Covered employees are required by statute to contribute at a rate of 6.25% – 9.30%, dependent on member class, of their gross pay. In addition, LCCC contributes at a contractually required contribution rate (ranged from 23.94% to 34.63% of annual payroll for the year ended June 30, 2019).

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

The PSERS net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2018, LCCC's proportion was 0.0082%, which was a decrease from its proportion of 0.0092% measured as of June 30, 2017.

The SERS net pension liability was measured as of December 31, 2018, 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, 2018, LCCC's proportion was 0.0056%, which was a decrease from its proportion of .0092% measured as of December 31, 2017.

	<u>PSERS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources	\$ 864,582	\$ 2,343,769	\$ 3,208,351
Net Pension Liability	3,936,000	11,744,174	15,680,174
Deferred Inflows of Resources	436,000	838,543	1,274,543
Pension Expense	337,178	752,014	1,089,192

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	\$ 4,879,000	\$ 3,936,000	\$ 3,139,000
Net Pension Liability - SERS	14,420,886	11,744,174	9,450,377

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 11 PENSION PLANS (CONTINUED)

TIAA-CREF (Continued)

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, 2019, LCCC contributed \$1,535,330 for eligible employees.

NOTE 12 OTHER POSTEMPLOYMENT 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. Prison workers are eligible for retirement at a minimum age of 50 with 10 years of service or early retirement with 20 years of service and no minimum age requirement, however benefits do not begin until age 55. If a retiree has less than 20 years of service, benefits begin at age 62. Detectives are eligible for retirement at age 55 with 20 years of service or age 60 with no minimum service. 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 December 31, 2017, the date of its latest actuarial valuation:

Retirees and Beneficiaries Receiving Benefits	23
Active Plan Members	272
Total	295

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 COBRA rate 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 COBRA rate ranging from 50% with 10 years of service to 5% with 19 years of service. The County detectives pay \$100 per month and are only covered until eligible for Medicare.

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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, Expense, and Deferred Inflows of Resources

The measurement date for GASB 75 is the County's fiscal year-end, December 31, 2019. There were no Plan assets as of this date. The Total OPEB Liability (TOL) as of this date is based on an actuarial valuation as of December 31, 2017, with adjustments made for the 24-month difference. Under GASB 75, the Net OPEB Liability (NOL) is established as the difference between the Total OPEB Liability and the Plan Fiduciary Net Position. The components of the net OPEB liability are as follows:

	December 31, 2019

Total OPEB Liability	\$ 8,770,780
Plan Fiduciary Net Position	-
Net OPEB Liability	\$ 8,770,780
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0%

For the year ended December 31, 2019, the County recognized aggregate OPEB expense of \$707,590 and Net OPEB Liability of \$8,770,780. At December 31, 2019, the County reported deferred inflows of resources related to its OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	\$ 719,595	\$ 259,397
Changes in Actuarial Assumptions		

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 33,736
2021	33,736
2022	33,736
2023	33,736
2024	33,736
After 2024	291,518
Total	\$ 460,198

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability

The Net OPEB Liability of the County for the OPEB Plan as of the measurement date, December 31, was as follows:

	2019
Total OPEB Liability	
Service Cost	\$ 379,959
Interest	293,895
Changes in Assumptions	774,948
Benefit Payments, Including Implicit Subsidies	(435,540)
Net Change in Total OPEB Liability	1,013,262
Total OPEB Liability - Beginning of Year	7,757,518
Total OPEB Liability - End of Year	\$ 8,770,780
Plan Fiduciary Net Position	
Contributions - Employer	\$ 435,540
Benefit Payments	(435,540)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - Beginning of Year	-
Plan Fiduciary Net Position - End of Year	\$ -
Net OPEB Liability - Beginning of Year	\$ 7,757,518
Net OPEB Liability - End of Year	\$ 8,770,780
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0%
Covered Employee Payroll	\$ 17,569,290
Net OPEB Liability as a Percentage of Covered Payroll	49.9%

Actuarial Methods and Assumptions

The actuarial cost method is the entry age method. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using an investment return of 4.00%, net of investment expense and including inflation, and a health care trend of 6.50%, initially, grading down to 4.50% ultimate. Mortality rates are based on the RP-2000 tables with adjustments for Blue Collar, projected to 2023 with Scale BB. There were no changes in assumptions during 2019.

Discount Rate

The discount rate used to measure the total OPEB liability is 2.75%. There is no prefunding of benefits in an OPEB trust for the Plan, therefore the discount rate is equal to the yield on a 20-year municipal bond Aa index as of December 31, 2019.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability plans, calculated using the discount rate of 2.75%, as well as what each plan's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (1.75%)	Discount Rate (2.75%)	1% Increase (3.75%)
Net OPEB Liability	\$ 9,657,989	\$ 8,770,780	\$ 7,970,536

The following presents the net OPEB liability plans, calculated using the health care trend rate of 6.50% to an ultimate rate of 4.50%, as well as what each plan's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (3.50%)	Current Ultimate Trend Rate (4.50%)	1% Increase (5.50%)
Net OPEB Liability	\$ 7,779,640	\$ 8,770,780	\$ 9,950,439

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	\$ 1,412,203	\$ 20,889,445	\$ 91,130	\$ -	\$ -	\$ -	\$ 22,392,778
Total Nonspendable	\$ 1,412,203	\$ 20,889,445	\$ 91,130	\$ -	\$ -	\$ -	\$ 22,392,778
Restricted for:							
Grant Programs	\$ 1,807,802	-	\$ 7,896,301	-	-	\$ 1,517,681	\$ 11,221,784
Liquid Fuels	-	-	-	-	-	1,776,660	1,776,660
Emergency 911	-	-	-	-	-	1,898,429	1,898,429
Probation	-	-	-	-	-	2,219,058	2,219,058
Loan Programs	-	21,391,558	-	-	-	1,816,995	23,208,553
Debt Service	-	-	-	272	-	-	272
Capital Projects	21,107,384	-	-	-	3,550,538	-	24,657,922
Total Restricted	\$ 22,915,186	\$ 21,391,558	\$ 7,896,301	\$ 272	\$ 3,550,538	\$ 9,228,823	\$ 64,982,678
Assigned for:							
Solid Waste	\$ -	-	-	-	-	\$ 5,332,264	\$ 5,332,264
Grant Programs	-	-	-	-	-	90,546	90,546
Capital Assets	3,000,000	-	-	-	-	-	3,000,000
Domestic Relations	-	-	-	-	-	5,321,462	5,321,462
Total Assigned	\$ 3,000,000	\$ -	\$ -	\$ -	\$ -	\$ 10,744,272	\$ 13,744,272

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 14 DEFICIT FUND BALANCES

The Internal Service Fund has a net deficit of \$1,781,125 at December 31, 2019. 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.

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, 2019 and 2018, the County has recorded a liability for claims incurred at their net present value of \$3,230,779 and \$4,178,878, respectively. This liability is calculated based on past loss experience and is discounted at a rate of 2.25% and 2.87% at December 31, 2019 and 2018, 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, 2019 and 2018 are as follows:

	2019	2018
Balance - January 1	\$ 4,178,878	\$ 3,608,113
Claims Incurred	97,005	1,738,952
Claims Paid	<u>(1,045,104)</u>	<u>(1,168,187)</u>
Balance - December 31	<u>\$ 3,230,779</u>	<u>\$ 4,178,878</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.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 15 SELF INSURANCE (CONTINUED)

During 2004, the County became self-funded for its employee health care 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 health care liabilities for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Balance - January 1	\$ 472,084	\$ 260,688
Claims Incurred	20,587,877	20,209,134
Claims Paid	(20,167,812)	(19,997,738)
Balance - December 31	\$ 892,149	\$ 472,084

NOTE 16 INTERFUND BALANCES/TRANSFERS

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2019 are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 7,809,154	\$ -
Health and Human Services Funds	417,132	7,487,551
Office of Community Development	-	29,637
Nonmajor Funds	-	709,098
Total	\$ 8,226,286	\$ 8,226,286

The amounts due to the General Fund are generally for payroll. All of these items are expected to be repaid in 2020. Amounts due to the Fiscal Programs are reported on the financial statements as due to agencies and totaled \$206,511 as of December 31, 2019.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 16 INTERFUND BALANCES/TRANSFERS (CONTINUED)

Interfund transfers in 2019 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Health and Human Services Funds	\$ -	\$ 8,076,754
Capital Projects	544,871	-
Debt Service Fund	21,107,384	25,342,584
Nonmajor Funds - Probation	1,993,541	-
Nonmajor Funds - Domestic Relations Office	-	1,866,634
Total General Fund	<u>23,645,796</u>	<u>35,285,972</u>
Health and Human Services Funds:		
General Fund	8,163,233	-
Capital Projects Fund:		
General Fund	-	544,871
Debt Service Fund:		
General Fund	25,342,584	21,107,384
Nonmajor Funds:		
General Fund	-	1,993,541
Nonmajor Funds:		
Domestic Relations Office	<u>1,866,634</u>	<u>-</u>
Totals	<u>\$ 59,018,247</u>	<u>\$ 58,931,768</u>

The difference between transfers in and transfers out of \$86,835 is due to the Fiscal Programs having a June 30, 2019 year-end.

Transfers into the Debt Service Fund (\$25,342,584) were used to fund the County's annual debt service payments from general real estate taxes collected. Transfer out from the Debt Service Fund (\$21,107,384) were related to Bond Proceeds from the Series 2019 Debt Issuance.

Transfers out of the General Fund included \$8,076,754 in operating subsidy for the Health and Human Services Funds and \$1,866,278 in operating subsidy for Domestic Relations.

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This Statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018.

NOTE 19 RECENT STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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 2020 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 2020 financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

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 2021 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 2020 financial statements.

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 2021 financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

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 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which is effective for fiscal years beginning after December 15, 2020. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The County is required to adopt Statement No. 91 for its calendar 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which is effective for fiscal years beginning after June 15, 2020. This statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The County is required to adopt Statement No. 92 for its calendar 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, which is effective for fiscal years beginning after June 15, 2020. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The County is required to adopt Statement No. 93 for its calendar 2022 financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)*, which is effective for fiscal years beginning after June 15, 2022. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The County is required to adopt Statement No. 94 for its calendar 2023 financial statements.

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

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

In May 2020, the GASB issued Statement No. 95, *Subscription-Based Information Technology Arrangements* which is effective for fiscal years beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology agreements. The County is required to adopt Statement No. 95 for its calendar 2023 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 RESTATEMENT

In the fiscal year 2019, the County identified errors in previously reported intergovernmental revenue and cash resulting in a \$1,557,563 understatement of restricted net position on the statement of net position and a \$1,557,563 understatement of restricted fund balance on the health and human service funds on the balance sheet – governmental funds as of December 31, 2018. Also in the fiscal year 2019, the County identified errors in previously reported other expenses and due from other funds resulting in a \$1,998,922 understatement of unrestricted net position on the statement of net position and a \$1,998,922 understatement of unassigned fund balance on the general fund on the balance sheet – governmental funds as of December 31, 2018. The County corrected these errors. The changes in the County's net position and fund balance as of January 1, 2019 for the correction of the error are as follows:

	Governmental Activities	General Fund	Health and Human Service Funds
Net Position/Fund Balance - as Previously Reported - January 1, 2019	\$ (122,300,301)	\$ 10,774,715	\$ 6,536,340
Correction of Error	3,556,485	1,998,922	1,557,563
Net Position/Fund Balance - as Restated - January 1, 2019	<u>\$ (118,743,816)</u>	<u>\$ 12,773,637</u>	<u>\$ 8,093,903</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 21 SUBSEQUENT EVENTS

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Management believes the County is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

During the period from December 31, 2019 through REPORT DATE, both domestic and international equity markets have experienced significant declines. These losses are not reflected in the financial statements as of and for the year ended December 31, 2019 as these events occurred subsequent to year-end and are still developing.

COUNTY OF LUZERNE, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019
(UNAUDITED)

	General Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 118,610,000	\$ 120,506,548	\$ 1,896,548
Payments in Lieu of Taxes	254,600	308,337	53,737
Intergovernmental	1,356,207	1,289,480	(66,727)
Charges for Services	4,620,603	5,303,144	682,541
Licenses and Permits	3,424,735	3,322,025	(102,710)
Fines and Forfeits	1,150,000	1,212,305	62,305
Interest and Rent	245,000	445,438	200,438
Contributions and Other	2,347,500	1,419,395	(928,105)
Total Revenues	<u>132,008,645</u>	<u>133,806,672</u>	<u>1,798,027</u>
EXPENDITURES			
General Government:			
Administration	9,276,976	8,801,659	475,317
Judicial	32,354,509	33,025,698	(671,189)
Corrections	35,261,578	34,687,793	573,785
Other	6,003,630	7,470,438	(1,466,808)
Public Safety	912,486	1,326,547	(414,061)
Public Works	4,682,846	4,374,558	308,288
Health and Human Services	-	71,710	(71,710)
Intergovernmental Appropriations	8,175,844	8,161,117	14,727
Total Expenditures	<u>96,667,869</u>	<u>97,919,520</u>	<u>(1,251,651)</u>
EXCESS OF REVENUES OVER EXPENDITURES	35,340,776	35,887,152	546,376
OTHER FINANCING SOURCES (USES)			
Contingency	(461,217)	-	461,217
Transfers In	3,100,000	23,645,796	20,545,796
Transfers Out:			
Debt Service Fund	(25,036,440)	(25,342,584)	(306,144)
Other Agencies - Operating Subsidy	(12,943,119)	(9,943,388)	2,999,731
Total Other Financing Sources (Uses), Net	<u>(35,340,776)</u>	<u>(11,640,176)</u>	<u>23,700,600</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ 24,246,976</u>	<u>\$ 24,246,976</u>

**COUNTY OF LUZERNE, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED DECEMBER 31, 2019
(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, 2019	98.48%	\$ 102,777,470	\$ 71,294,691	144%	71.60%
December 31, 2018	98.36%	119,631,257	70,555,278	170%	63.80%
December 31, 2017	97.77%	83,473,735	65,973,098	127%	74.10%
December 31, 2016	97.46%	92,602,974	64,734,794	143%	69.60%
December 31, 2015	97.66%	86,435,923	61,827,015	140%	70.80%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**COUNTY OF LUZERNE, PENNSYLVANIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION TRUST FUND
 YEAR ENDED DECEMBER 31, 2019
 (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	\$ 61,827,015	3.69%
2016	11,006,212	2,464,188	8,542,024	64,734,794	3.81%
2017	11,794,593	11,794,593	-	65,973,098	17.88%
2018	12,723,313	10,000,145	2,723,168	70,555,278	14.17%
2019	13,330,000	13,330,000	-	71,294,691	18.70%

* 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.

**COUNTY OF LUZERNE, PENNSYLVANIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION TRUST FUND (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019
 (UNAUDITED)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2018**

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 December 31, 2018 actuarial valuations were based upon an actual experience study for the period January 1, 2013 to December 31, 2018.

The investment rate of return in the actuarial valuation as of January 1, 2017 was 7.25% and decreased to 7.00% in the actuarial valuation as of December 31, 2017 to reflect current expectations of the Plan's long-term investment performance.

2. Methods and assumptions used to determine contribution rates:

Valuation Date	December 31, 2018
Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	Over a closed 18 year period, beginning in 2019
Asset Valuation Method	Five year open period smoothing (market value vs. expected actuarial value) with 80% to 120% corridor around market value

Actuarial Assumptions:

Inflation	3%
Salary Increases	3% + service based incentives
Investment Rate of Return	7.00%, net of investment expense and including inflation
Mortality Rate	Based on the Retired Pensioners (RP)-2000 Tables projected to 2015
Cost-of-Living Adjustment	No cost-of-living adjustment is assumed

Valuation Date	December 31, 2017
Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	Over a closed 18 year period, beginning in 2019
Asset Valuation Method	Five year open period smoothing (market value vs. expected actuarial value) with 80% to 120% corridor around market value

Actuarial Assumptions:

Inflation	3%
Salary Increases	3% + service based incentives
Investment Rate of Return	7.00%, net of investment expense and including inflation
Mortality Rate	Based on the Retired Pensioners (RP)-2000 Tables projected to 2015
Cost-of-Living Adjustment	No cost-of-living adjustment is assumed

**COUNTY OF LUZERNE, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
DECEMBER 31, 2019
(UNAUDITED)**

Measurement Date	County's Net OPEB Liability	County's Covered Payroll	Net OPEB Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of Total OPEB Liability
December 31, 2019	\$ 8,770,780	\$ 17,569,290	50%	0.00%
December 31, 2018	7,757,518	20,346,643	38%	0.00%
December 31, 2017	7,781,849	17,587,855	44%	0.00%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**COUNTY OF LUZERNE, PENNSYLVANIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB
 DECEMBER 31, 2019
 (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
2017	\$ 755,558	\$ 346,441	\$ 409,117	\$ 17,587,855	1.97%
2018	778,225	354,561	423,664	20,346,643	1.74%
2019	801,571	435,540	366,031	17,569,290	2.48%

* 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, 2019**

1. Changes of Assumptions

The actuarial valuation used assumptions including investment return, healthcare trend rates and mortality rates.

There were changes of assumptions from the December 31, 2016 valuation to the December 31, 2017 valuation.

2. Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	30 years
Asset Valuation Method	Not applicable
Inflation	3%
Salary Increases	3% + service based incentives
Investment Rate of Return	4.00%, net of investment expense and including inflation
Retirement Age	Normal
Mortality	Based on the Retired Pensioners (RP)-2000 Tables, with Blue Collar adjustments, projected to 2023 with Scale BB
Healthcare Trend	6.5% initially, grading down to 4.5 % ultimate

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