

# **County of Luzerne, Pennsylvania**

Financial Statements and  
Supplementary Information

December 31, 2020

# County of Luzerne, Pennsylvania

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December 31, 2020

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## Independent Auditors' Report

To the County Council of  
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, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following departments of the Health and Human Services Funds (major fund): Area Agency on Aging for Luzerne/Wyoming Counties; Luzerne-Wyoming Counties Mental Health and Developmental Services Program; Luzerne-Wyoming Counties Drug and Alcohol Program; Luzerne County Children and Youth Services; and Luzerne County Office of Human Services, which collectively represent 90 percent, 73 percent and 98 percent, respectively, of the assets, fund balances and revenues of the Health and Human Services Fund and 9 percent, 10 percent and 28 percent, respectively, of the assets, net position and revenues of the Governmental Activities. In addition, we did not audit Domestic Relations, a nonmajor special revenue fund, which represents 16 percent, 18 percent and 16 percent, respectively, of the assets, fund balances and revenues of the nonmajor funds and 2 percent, 7 percent and 1 percent, 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 percent, 99 percent and 36 percent, respectively, of the assets, net position and revenues of the Fiduciary Fund. Finally, we did not audit the Luzerne County Community College, which represents 99 percent, 98 percent and 99 percent, respectively, 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 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; Luzerne County Office of Human Services; Domestic Relations; Pension Trust Fund and Luzerne County Community College, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Luzerne, Pennsylvania, as of December 31, 2020 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 discussed in Notes 1 and 18 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*, for the year ended December 31, 2020 to conform with accounting principles generally accepted in the United States of America, which has resulted in a restatement of the custodial funds' net position as of January 1, 2020, and expansion of note disclosures. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 13, the budgetary comparison information on page 65, the schedule of changes in net pension liability and related ratios on page 66, the schedule of employer contributions on page 67, the schedule of changes in net OPEB liability and related ratios on page 68 and the schedule of employer OPEB Plan contributions on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated June 28, 2021 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Baker Tilly US, LLP*

Wilkes-Barre, Pennsylvania  
June 28, 2021

# County of Luzerne, Pennsylvania

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Management Discussion and Analysis  
(Unaudited)  
December 31, 2020

This Management 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, 2020 compared to the year ended December 31, 2019. 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 by \$79,842,796 at December 31, 2020.

General Fund revenues and other financing sources were exceeded by expenses and other financing uses in 2020 by \$17,423,007. This decreased the General Fund's fund balances from \$37,020,613 at December 31, 2019 to a fund balances of \$19,597,606 at December 31, 2020.

The County's estimated net pension liability at December 31, 2020 was approximately \$80,100,000, which was a decrease from the \$102,777,000 reported at December 31, 2019. The significant decrease is a result of the County continuing to fund its actuarially determined contribution combined with significant increases in the market value of plan assets.

The County's estimated other postemployment benefit liability at December 31, 2020 was approximately \$9,500,000, which is an increase from the \$8,771,000 reported at December 31, 2019.

In November 2019, Luzerne County issued \$33,305,000 General Obligation Note. The breakdown was \$19,700,000 for the 911 Digital upgrade, \$1,400,000 for the Dominion voting machines and \$12,205,000 debt refinancing. The \$21,100,000 was recorded as part of the restricted fund balances. The \$19,700,000 for the 911 Digital upgrades along with an additional \$2,000,000 for 911 and \$1,000,000 for capital projects were transferred out of the General Fund in 2020.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to areas impacting the County. The County's evaluation of the effects of these events is ongoing as the pandemic continues. The County had increased expenses for technology to allow employees to work from home, as well as expenditures for pandemic related sanitizing and spacing of employees when returning to their offices. The County expects that most or all of these expenses to be reimbursed from the Coronavirus Aid, Relief and Economic Security Act grant received through the Commonwealth Department of Community and Economic Development in the amount of approximately \$28,600,000. Portions of this funding was also utilized to provide grants and resources for the local communities affected by the pandemic.

The County also saved approximately \$800,000 due to furloughs during the pandemic. Some employees were able to be repurposed to help with the increased election efforts, which decreased furlough savings but also decreased cost for additional mail in ballot processing and the move from individual municipalities to school districts due to the coronavirus.

## Government-Wide Financial Statements

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

The government-wide financial statements can be found on pages 14-15 of this report.

# County of Luzerne, Pennsylvania

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

## 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. Governmental funds are prepared using the modified accrual basis of accounting, while proprietary and fiduciary funds are prepared using the full accrual basis of accounting. The County uses three types of funds: governmental funds, proprietary funds and fiduciary funds.

### Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances (deficit) 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 (deficit) for the County's major funds, which are the General Fund, Luzerne County Office of Community Development, Health and Human Services Funds, CARES Act Fund, Debt Service Fund and the Capital Projects Fund. All of the governmental funds that are not major funds 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 65.

The basic fund financial statements can be found on pages 16-22 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 Custodial 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 23-24 of this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-64 of this report.

## County of Luzerne, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### Governmental Activities, Condensed Statement of Net Position December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
<b>Assets and Deferred Outflows</b>			
Current and other assets	\$ 149,654,679	\$ 156,006,023	\$ (6,351,344)
Capital assets, net	117,854,960	97,308,581	20,546,379
Total assets	267,509,639	253,314,604	14,195,035
Deferred outflows of resources	20,721,338	27,625,180	(6,903,842)
Total assets and deferred outflows of resources	<u>\$ 288,230,977</u>	<u>\$ 280,939,784</u>	<u>\$ 7,291,193</u>
<b>Liabilities and Deferred Inflows</b>			
Current liabilities	\$ 49,787,863	\$ 44,165,422	\$ 5,622,441
Long-term and other liabilities	296,983,135	338,813,742	(41,830,607)
Total liabilities	346,770,998	382,979,164	(36,208,166)
Deferred inflows of resources	21,302,775	6,733,025	14,569,750
<b>Net Position (Deficit)</b>			
Net investment in capital assets	(21,663,138)	(39,489,590)	17,826,452
Restricted	51,108,682	49,122,136	1,986,546
Unrestricted (deficit)	(109,288,340)	(118,404,951)	9,116,611
Total net position (deficit)	<u>\$ (79,842,796)</u>	<u>\$ (108,772,405)</u>	<u>\$ 28,929,609</u>

Total assets of the Luzerne County primary government increased from \$253,314,604 at December 31, 2019 to \$267,509,639 at December 31, 2020. This amounts to an increase of \$14,195,035 or 5.6 percent. The majority of the increase stemmed from additions to capital assets during the year.

Deferred outflows of resources decreased by \$6,903,842 as a result of changes within the pension and OPEB plan items that are allocated to future year's expense.

The County's total liabilities decreased by \$36,208,166 during 2020, which represents a 9.5% decrease from 2019 to 2020. This decrease is primarily due to the change in County's net pension liability of \$22,678,581 and the continued repayment of County debt obligations.

# County of Luzerne, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

## Condensed Statement of Governmental Activities Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
<b>Governmental Activities</b>			
Program revenues:			
Charges for services	\$ 13,734,035	\$ 12,971,870	\$ 762,165
Operating grants and contributions	100,183,202	100,041,242	141,960
Capital grants and contributions	231,054	-	231,054
General revenues:			
Tax levy for general purposes, net	123,474,246	120,506,548	2,967,698
Hotel tax revenues	2,113,981	3,129,586	(1,015,605)
Grants and contributions not restricted to specific programs	32,713,768	5,441,411	27,272,357
Contributions and other	1,709,649	220,898	1,488,751
Total revenues	<u>274,159,935</u>	<u>242,311,555</u>	<u>31,848,380</u>
Expenses:			
General government, administrative	22,525,467	8,365,109	14,160,358
General government, judicial	32,772,915	36,043,739	(3,270,824)
General government, corrections	35,178,359	36,211,382	(1,033,023)
General government, other	8,095,145	7,347,728	747,417
Intergovernmental appropriations	12,643,709	8,161,117	4,482,592
Public safety	7,881,088	8,789,549	(908,461)
Public works	6,270,900	6,111,665	159,235
Human services	88,837,951	93,372,855	(4,534,904)
Cultural and recreation	2,073,625	3,042,327	(968,702)
Community and Economic Development	14,149,525	10,502,479	3,647,046
Unallocated depreciation	6,498,131	4,455,864	2,042,267
Interest on long-term debt	8,303,511	9,936,330	(1,632,819)
Total expenses	<u>245,230,326</u>	<u>232,340,144</u>	<u>12,890,182</u>
Changes in net position	28,929,609	9,971,411	18,958,198
Net position (deficit), beginning	<u>(108,772,405)</u>	<u>(118,743,816)</u>	<u>9,971,411</u>
Net position (deficit), ending	<u>\$ (79,842,796)</u>	<u>\$ (108,772,405)</u>	<u>\$ 28,929,609</u>

During 2020, the County received grant funding under the Coronavirus Aid, Relief and Economic Security Act funding received through the County Relief Block Grant in the approximate amount of \$28,665,000, which was expended for various purposes related to the coronavirus pandemic. Such expenditures were allocated to the individual functions outlined above and relate to the increases in expenditures. The revenues are included in the grants and contributions not restricted to specific programs, contributing to the approximate \$27,300,000 increase.

## County of Luzerne, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

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

The following represents a summary of General Fund revenues, by source, along with changes from 2019:

	<b>2020 Amount</b>	<b>2019 Amount</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Taxes	\$ 123,758,697	\$ 120,506,548	\$ 3,252,149	2.7 %
Payments in lieu of taxes	264,390	308,337	(43,947)	(14.25)
Intergovernmental	3,882,947	1,289,480	2,593,467	201.13
Charges for service	3,403,676	5,303,144	(1,899,468)	(35.82)
Licenses and permits	3,340,451	3,322,025	18,426	.55
Fines and forfeits	1,045,679	1,212,305	(166,626)	(13.74)
Interest and rent	1,217,345	445,438	771,907	173.29
Contributions and other	2,606,997	1,419,395	1,187,602	83.67
Transfers in	6,840,355	23,645,796	(16,805,441)	(71.07)
<b>Total revenue</b>	<b>\$ 146,360,537</b>	<b>\$ 157,452,468</b>	<b>\$ (11,091,931)</b>	<b>(7.04) %</b>

Total revenues and other financing sources within the General Fund decreased by \$11,091,931 or approximately 7.0 percent from 2019 to 2020.

The decrease of approximately \$17,000,000 in transfers in is comprised primarily of the approximately \$21,100,000 proceeds from the County's 2019 borrowing, offset by approximately \$5,500,000 transferred in from the County Relief Block Grant to reimburse the County for eligible expenditures related to the Coronavirus pandemic. Of \$21,100,000 proceeds from the 2019 borrowing, approximately \$19,700,000 related to the 911 Digital upgrade project and \$1,400,000 related to the purchase and maintenance of Dominion voting machines. The change in voting machines was required by a Commonwealth of Pennsylvania mandate.

## County of Luzerne, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### General Fund (Major Fund)

The following represents a summary of General Fund expenditures, by function, along with changes from 2019.

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
General government:				
Administration	\$ 9,269,241	\$ 8,801,659	\$ 467,582	5.31 %
Judicial	32,899,102	33,025,698	(126,596)	( 0.38)
Corrections	35,263,309	34,687,793	575,516	1.66
Other	7,916,051	7,470,438	445,613	5.97
Public safety	892,057	1,326,547	(434,490)	(32.75)
Public works	4,496,155	4,374,558	121,597	2.78
Human services	157,874	71,710	86,164	120.16
Payments to related agencies	8,225,851	8,161,117	64,734	0.79
Capital outlay	7,225,914	-	7,225,914	100.00
Transfers out	<u>57,437,989</u>	<u>35,285,972</u>	<u>22,152,017</u>	<u>62.78</u>
Total expenses	<u>\$ 163,783,543</u>	<u>\$ 133,205,492</u>	<u>\$ 30,578,051</u>	<u>22.96 %</u>

Total expenses and other financing uses within the General Fund increased by \$30,578,051 or 23.0 percent from 2019 to 2020.

Capital outlay expenditures relate to certain information technology and other building modifications required as a result of the Coronavirus pandemic that were primarily funded by the CARES Act grant.

The additional expenditures of approximately \$22,000,000 within transfers out is primarily comprised of the approximately \$21,700,000 transfer out to 911. Of this amount, \$19,700,000 is from the 2019 General Obligation Note issued for 911 and initially recorded in the General Fund during 2019.

## County of Luzerne, Pennsylvania

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### 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 65.

The County's actual revenues for the General Fund for the year ended December 31, 2020 were approximately \$3,843,000 more than the final budget. Of this amount, contributions and other accounted for approximately \$2,000,000 related to salary reimbursements from the County Relief Block Grant.

The County's actual expenditures for the year ended December 31, 2020 were approximately \$4,196,000 more than was anticipated in the final budget. Of this amount, general government, administration was approximately \$6,800,000 more than budgeted as a result of additional expenditures incurred as a result of the Coronavirus pandemic and that were funded through the County's CARES Act award, general government, corrections was approximately \$2,000,000 less than budget, comprised primarily of reduced wages for the prison amounting to approximately \$1,100,000, \$350,000 reduction in retirement and \$100,000 in health insurance. General government, judicial was approximately \$1,500,000 less than budget due to less wage expense during the current year of approximately \$1,000,000, a \$400,000 reduction in the retirement contribution and a reduction of approximately \$156,000 in health insurance.

The County's other financing uses, namely transfers out, exceeded budgeted amounts by approximately \$22,000,000, with the majority arising from a transfer of \$19,700,000 in restricted proceeds from debt issuance in 2019, recorded in the General Fund, to the 911 fund (a nonmajor governmental fund) during 2020.

The overall General Fund had an unfavorable overall budgetary variance of \$17,423,007.

### 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 \$4,947,001 from 2019 to a balance of \$37,334,002 at December 31, 2020, all of which is either restricted for community development programs or not in spendable form (comprised of outstanding notes and loans receivable).

### 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 Services Fund has a fund balance of \$11,044,097 at December 31, 2020. This is an increase of \$3,056,666 from December 31, 2019. This increase is a result of reduced expenditures due to the Coronavirus pandemic and an increase in intergovernmental revenues.

## County of Luzerne, Pennsylvania

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### **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.

### **CARES Act Fund (Major Fund)**

The CARES Act Fund accounts for activity related to the County's allocation from the County Relief Block Grant following the passage of the Coronavirus Aid, Relief and Economic Security Act. The CARES Act Fund had a deficit fund balance of \$422 at December 31, 2020.

### **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's fund balances decreased from \$3,550,538 at December 31, 2019 to \$2,565,050 at December 31, 2020 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, 2020 were \$1,373,583.

This amount adheres to the state minimum level and as a result the fund has a deficit fund balance of \$1,905,062 as of December 31, 2020. This is an increase of \$123,937 in the fund deficit of \$1,781,125 reported at December 31, 2019.

### **Pension Trust Fund**

The Pension Trust Fund is a fiduciary component unit within the County's fiduciary funds and holds the assets of the County Retirement Plan. The Plan experienced an increase in net position of \$24,125,922 during 2020 resulting in Plan net position of \$281,063,132 at December 31, 2020.

Plan contributions by members amounted to \$4,324,353 and \$4,213,447 in 2020 and 2019, respectively. Benefits paid to retired members were \$20,343,998 and \$19,110,693 in 2020 and 2019, respectively.

### **Custodial Funds**

The Custodial Fund accounts for assets held by the County in a custodial function for individuals or other governments. The County held \$7,596,792 in cash, with restricted net position of \$1,455,193 at December 31, 2020.

## County of Luzerne, Pennsylvania

Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### Capital Assets

The County's investment in capital assets at December 31, 2020 and 2019, net of accumulated depreciation, was \$117,854,960 and \$97,308,581 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, 2020 and 2019:

#### Capital Assets, Governmental Activities December 31, 2020

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost Less Accumulated Depreciation</u>
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	82,236,914	45,621,180	36,615,734
Investment in airport	668,061	315,718	352,343
Land improvements	528,339	96,242	432,097
Buildings and improvements	100,581,056	51,608,105	48,972,951
Machinery and equipment	28,031,981	16,937,803	11,094,178
Construction-in-process	16,103,522	-	16,103,522
Total county-wide	<u>\$ 232,434,008</u>	<u>\$ 114,579,048</u>	<u>\$ 117,854,960</u>

#### December 31, 2019

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost Less Accumulated Depreciation</u>
County-Wide:			
Land	\$ 4,284,135	\$ -	\$ 4,284,135
Infrastructure	79,081,273	44,238,969	34,842,304
Investment in 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	<u>\$ 209,111,661</u>	<u>\$ 111,803,080</u>	<u>\$ 97,308,581</u>

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

### Long-Term Debt

As of December 31, 2020, the County's net general obligation debt was \$210,905,037, 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.

## **County of Luzerne, Pennsylvania**

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Management's Discussion and Analysis  
(Unaudited)  
December 31, 2020

### **Economic Condition and Outlook**

The 2020 deficit is primarily made up of the approximately \$19,700,000 transferred out of the General Fund to the Luzerne County 911 for the next generation 911 Digital Project. Luzerne County remained profitable once the borrowing is backed out. During 2019, The Budget and Finance Director reported that even though the audit surplus was approximately \$24,200,000 that approximately \$21,100,000 was related to the 2019 borrowing and the nonborrowed surplus was approximately \$3,100,000. This is the same concept with the money being physical transferred to 911 in 2020.

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

The County's Standard and Poor's credit rating remained stable at A- in 2020.

### **Relief Through the American Rescue Plan Act**

The federal government passed the American Rescue Plan Act on March 11, 2021 to respond to the COVID-19 public health emergency and its negative economic impacts. Amounts were appropriated for fiscal year 2021 to units of local government to mitigate the fiscal effects stemming from the public health emergency. The County's estimated award is \$112,890,152, which will be used to combat the negative effects of the public health emergency in the local economy. The County received 50 percent of the funds in June 2021, with the remaining expected a year later. The funds are to cover costs incurred by December 31, 2024.

### **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 (Deficit)

December 31, 2020

	<b>Governmental Activities</b>	<b>Component Units</b>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 64,059,039	\$ 34,428,704
Restricted cash and cash equivalents	1,546,856	-
Current portion of notes receivable	1,253,028	-
Accounts receivable, net	7,700,789	7,718,362
Inventory	-	52,897
Due from other governments, net	24,030,849	754,488
Due from (to) component units	13,038	-
Taxes and levee receivable, net	11,641,213	-
Prepaid expenses	1,701,022	-
Other assets	-	34,508
Total current assets	111,945,834	42,988,959
<b>Capital Assets, Net</b>	117,854,960	42,544,265
<b>Assets Restricted for Capital Projects</b>	12,062,927	-
<b>Notes Receivable</b>	25,645,918	-
<b>Other Noncurrent Assets</b>	-	1,219,475
<b>Investments</b>	-	17,891,240
Total assets	267,509,639	104,643,939
<b>Deferred Outflows of Resources</b>		
Deferred bond refunding	8,325,585	-
Other postemployment benefits	1,322,865	1,247,820
Pension	11,072,888	1,917,488
Total deferred outflows of resources	20,721,338	3,165,308
Total assets and deferred outflows of resources	\$ 288,230,977	\$ 107,809,247
<b>Liabilities, Deferred Inflows of Resources and Net Position (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 23,847,590	\$ 2,466,332
Unpaid claims reserve	3,278,645	-
Accrued interest expense	882,722	-
Current portion of long-term liabilities:		
Bonds and notes payable	17,895,000	520,375
Compensated absences	39,112	420,453
Other postemployment benefits	-	1,650,902
Due to other governments	1,199,727	7,995
Due to Fiscal Programs	386,641	-
Other current liabilities	1,555,059	2,877,345
Unearned revenues	703,367	3,249,041
Total current liabilities	49,787,863	11,192,443
<b>Noncurrent Liabilities</b>		
Bonds and notes payable, net	201,335,622	8,981,955
Other postemployment benefits	9,519,988	25,901,239
Advance swap payment	727,108	-
Investment derivatives, pay variable/receive variable basis swaps	203,201	-
Net pension liability	80,098,889	13,337,433
Compensated absences	5,098,327	1,681,813
Total liabilities	346,770,998	61,094,883
<b>Deferred Inflows of Resources</b>		
Other postemployment benefits	462,793	3,717,358
Pension	20,839,982	2,075,095
Total deferred inflows of resources	21,302,775	5,792,453
<b>Net Position (Deficit)</b>		
Net investment in capital assets	(21,663,138)	32,770,632
Restricted	51,108,682	10,036,013
Unrestricted (deficit)	(109,288,340)	(1,884,734)
Total net position (deficit)	(79,842,796)	40,921,911
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 288,230,977	\$ 107,809,247

See notes to financial statements

**County of Luzerne, Pennsylvania**

Statement of Activities

Year Ended December 31, 2020

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
<b>Primary Government</b>						
Governmental activities:						
General government, administration	\$ (22,525,467)	\$ 4,979,529	\$ 3,132,826	\$ -	\$ (14,413,112)	
General government, judicial	(32,772,915)	1,143,791	-	-	(31,629,124)	
General government, corrections	(35,178,359)	369,433	-	-	(34,808,926)	
General government, other	(8,095,145)	3,032,318	-	-	(5,062,827)	
Intergovernmental appropriations	(12,643,709)	-	-	-	(12,643,709)	
Public safety	(7,881,088)	84,232	9,617,755	-	1,820,899	
Public works	(6,270,900)	2,647,829	2,189,587	231,054	(1,202,430)	
Health and human services	(88,837,951)	1,476,903	79,672,522	-	(7,688,526)	
Culture and recreation	(2,073,625)	-	-	-	(2,073,625)	
Community and economic development	(14,149,525)	-	5,570,512	-	(8,579,013)	
Unallocated depreciation	(6,498,131)	-	-	-	(6,498,131)	
Interest on long-term debt	(8,303,511)	-	-	-	(8,303,511)	
Total governmental activities	<u>\$ (245,230,326)</u>	<u>\$ 13,734,035</u>	<u>\$ 100,183,202</u>	<u>\$ 231,054</u>	<u>(131,082,035)</u>	
<b>Component Units</b>						
Luzerne County Community College	\$ (70,558,649)	\$ 24,372,572	\$ 40,036,936	\$ 1,676,367		\$ (4,472,774)
Luzerne County Visitors Bureau	(453,705)	34,037	406,430	-		(13,238)
Total component units	<u>\$ (71,012,354)</u>	<u>\$ 24,406,609</u>	<u>\$ 40,443,366</u>	<u>\$ 1,676,367</u>		<u>(4,486,012)</u>
<b>General Revenues and Transfers</b>						
Property taxes levied for general purposes, net					123,474,246	-
Hotel room rental taxes					2,113,981	-
Interest revenues					493,617	800,464
Grants, contributions and other revenues not restricted to specific programs					32,713,768	-
Miscellaneous revenues					370,571	858,278
Gain (loss) on disposal of capital assets					106,731	3,001,500
Change in fair value of investment derivative					67,016	-
Amortization of advance swap payment					126,454	-
Transfers					545,260	-
Total general revenues					<u>160,011,644</u>	<u>4,660,242</u>
Change in net position					28,929,609	174,230
<b>Net Position (Deficit), Beginning</b>					<u>(108,772,405)</u>	<u>40,747,681</u>
<b>Net Position (Deficit), Ending</b>					<u>\$ (79,842,796)</u>	<u>\$ 40,921,911</u>

See notes to financial statements

**County of Luzerne, Pennsylvania**

Balance Sheet - Governmental Funds

December 31, 2020

	General Fund	Office of Community Development	Health and Human Services Funds	Debt Service Fund	CARES Act Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 14,250,105	\$ 18,947,524	\$ 9,342,419	\$ -	\$ 895,008	\$ -	\$ 20,621,105	\$ 64,056,161
Restricted cash	-	-	216,261	-	-	2,521,088	9,541,839	12,279,188
Accounts receivable	5,970,687	-	208,521	-	76,554	-	1,404,919	7,660,681
Due from other funds	7,315,231	-	390,193	-	-	464,739	-	8,170,163
Notes receivable	-	26,898,946	-	-	-	-	-	26,898,946
Due from other governments, net	961,564	933,534	17,940,890	-	-	-	4,194,861	24,030,849
Due from component unit	13,038	-	-	-	-	-	-	13,038
Prepaid expenses	1,649,839	-	51,183	-	-	-	-	1,701,022
Taxes receivable, net	11,641,213	-	-	-	-	-	-	11,641,213
<b>Total</b>	<b>\$ 41,801,677</b>	<b>\$ 46,780,004</b>	<b>\$ 28,149,467</b>	<b>\$ -</b>	<b>\$ 971,562</b>	<b>\$ 2,985,827</b>	<b>\$ 35,762,724</b>	<b>\$ 156,451,261</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)</b>								
<b>Liabilities</b>								
Accounts payable and accrued liabilities	\$ 7,581,397	\$ 895,352	\$ 8,423,337	\$ -	\$ -	\$ 420,777	\$ 3,425,266	\$ 20,746,129
Accrued payroll and benefits	2,858,578	-	-	-	-	-	95,732	2,954,310
Due to other funds	769,614	38,182	5,778,058	-	971,984	-	612,325	8,170,163
Due to agencies	386,641	-	-	-	-	-	-	386,641
Due to other governments	268,854	-	680,873	-	-	-	250,000	1,199,727
Other payables	147,151	-	1,555,059	-	-	-	-	1,702,210
Compensated absences	-	-	39,112	-	-	-	-	39,112
Unearned revenues	70,101	4,337	628,931	-	-	-	-	703,369
<b>Total liabilities</b>	<b>12,082,336</b>	<b>937,871</b>	<b>17,105,370</b>	<b>-</b>	<b>971,984</b>	<b>420,777</b>	<b>4,383,323</b>	<b>35,901,661</b>
<b>Deferred Inflows of Resources</b>								
Unearned tax revenues	10,121,735	-	-	-	-	-	-	10,121,735
Unavailable revenues, loans	-	8,508,131	-	-	-	-	-	8,508,131
<b>Total deferred inflows of resources</b>	<b>10,121,735</b>	<b>8,508,131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,629,866</b>
<b>Fund Balances (Deficit)</b>								
Nonspendable	1,649,839	18,390,815	51,183	-	-	-	-	20,091,837
Restricted	-	18,943,187	10,992,914	-	-	2,565,050	18,607,531	51,108,682
Assigned	2,513,604	-	-	-	-	-	12,771,870	15,285,474
Unassigned	15,434,163	-	-	-	(422)	-	-	15,433,741
<b>Total fund balances (deficit)</b>	<b>19,597,606</b>	<b>37,334,002</b>	<b>11,044,097</b>	<b>-</b>	<b>(422)</b>	<b>2,565,050</b>	<b>31,379,401</b>	<b>101,919,734</b>
<b>Total</b>	<b>\$ 41,801,677</b>	<b>\$ 46,780,004</b>	<b>\$ 28,149,467</b>	<b>\$ -</b>	<b>\$ 971,562</b>	<b>\$ 2,985,827</b>	<b>\$ 35,762,724</b>	<b>\$ 156,451,261</b>

See notes to financial statements

## County of Luzerne, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
December 31, 2020

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 101,919,734</b>
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.		(1,905,062)
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.		117,854,960
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are not reported as unearned revenue in the funds.		10,121,735
Unearned revenues in the governmental fund balance sheet include amounts that are not considered a current financial resource. Such amounts related the Office of Community Development.		8,508,131
Deferred outflows of resources related to the net pension liability included in the statement of net position.		11,072,888
Deferred outflows of resources related to the net OPEB liability included in the statement of net position.		1,322,865
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	\$ 219,230,622	
Deferred bond refunding	(8,325,585)	
Other postemployment benefits	9,519,988	
Advance swap payment	727,108	
Compensated absences	5,098,327	
Net pension liability	<u>80,098,889</u>	
		(306,349,349)
Deferred inflows of resources related to the net pension liability included in the statement of net position.		(20,839,982)
Deferred inflows of resources related to the net OPEB liability included in the statement of net position.		(462,793)
The fair value of derivative instruments used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.		(203,201)
Accrued interest payable is included in the statement of net position.		<u>(882,722)</u>
<b>Total Net Position (Deficit) - Governmental Activities</b>		<b><u>\$ (79,842,796)</u></b>

See notes to financial statements

**County of Luzerne, Pennsylvania**

Statement of Revenues, Expenditures and Change in Fund Balances (Deficit) - Governmental Funds  
 Year Ended December 31, 2020

	General Fund	Office of Community Development	Health and Human Services Funds	Debt Service Fund	CARES Act Fund	Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>								
Property taxes	\$ 123,758,697	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,072,509	\$ 125,831,206
Payments in lieu of taxes	264,390	-	-	-	-	-	-	264,390
Intergovernmental	3,882,947	5,323,155	72,981,237	-	28,662,541	-	17,035,952	127,885,832
Charges for service	3,403,676	654,581	1,889,175	-	-	-	1,866,058	7,813,490
Licenses and permits	3,340,451	-	-	-	-	-	747,919	4,088,370
Fines and forfeits	1,045,679	-	-	-	-	-	-	1,045,679
Interest and rent	1,217,345	247,370	29,187	-	2,604	156	102,118	1,598,780
Contributions and other	2,590,742	-	2,787,251	-	-	464,740	285,522	6,128,255
<b>Total revenues</b>	<b>139,503,927</b>	<b>6,225,106</b>	<b>77,686,850</b>	<b>-</b>	<b>28,665,145</b>	<b>464,896</b>	<b>22,110,078</b>	<b>274,656,002</b>
<b>Expenditures</b>								
Current:								
General government:								
Administration	9,269,241	-	1,306,970	272	7,233,473	-	-	17,809,956
Judicial	32,899,102	-	-	-	1,063,991	-	2,586,352	36,549,445
Corrections	35,263,309	-	-	-	1,135,936	-	-	36,399,245
Other	7,916,051	-	-	-	-	-	6,215	7,922,266
Public safety	892,057	-	-	-	363,282	-	8,632,185	9,887,524
Public works	4,496,155	-	-	-	1,259,826	-	4,726,624	10,482,605
Community and economic development	-	11,172,107	-	-	7,438,689	-	-	18,610,796
Health and human services	157,874	-	81,952,375	-	237,444	-	5,274,190	87,621,883
Intergovernmental appropriations	8,225,851	-	-	-	4,417,858	-	-	12,643,709
Debt service:								
Principal	-	-	-	14,790,000	-	-	-	14,790,000
Interest	-	-	-	9,786,100	-	-	-	9,786,100
Capital outlay	7,225,915	-	-	-	-	3,450,315	10,883,187	21,559,417
<b>Total expenditures</b>	<b>106,345,555</b>	<b>11,172,107</b>	<b>83,259,345</b>	<b>24,576,372</b>	<b>23,150,499</b>	<b>3,450,315</b>	<b>32,108,753</b>	<b>284,062,946</b>
Excess (deficiency) of revenues over expenditures	33,158,372	(4,947,001)	(5,572,495)	(24,576,372)	5,514,646	(2,985,419)	(9,998,675)	(9,406,944)
<b>Other Financing Sources (Uses)</b>								
Proceeds from sale of assets	16,255	-	-	-	-	-	-	16,255
Transfers in	6,840,355	-	8,731,561	24,576,100	-	2,000,000	23,027,868	65,175,884
Transfers out	(57,437,989)	-	(102,400)	-	(5,515,068)	(69)	(1,622,887)	(64,678,413)
<b>Total other financing sources (uses)</b>	<b>(50,581,379)</b>	<b>-</b>	<b>8,629,161</b>	<b>24,576,100</b>	<b>(5,515,068)</b>	<b>1,999,931</b>	<b>21,404,981</b>	<b>513,726</b>
<b>Net change in fund balance</b>	<b>(17,423,007)</b>	<b>(4,947,001)</b>	<b>3,056,666</b>	<b>(272)</b>	<b>(422)</b>	<b>(985,488)</b>	<b>11,406,306</b>	<b>(8,893,218)</b>
<b>Fund Balances, Beginning</b>	<b>37,020,613</b>	<b>42,281,003</b>	<b>7,987,431</b>	<b>272</b>	<b>-</b>	<b>3,550,538</b>	<b>19,973,095</b>	<b>110,812,952</b>
<b>Fund Balances (Deficit), Ending</b>	<b>\$ 19,597,606</b>	<b>\$ 37,334,002</b>	<b>\$ 11,044,097</b>	<b>\$ -</b>	<b>\$ (422)</b>	<b>\$ 2,565,050</b>	<b>\$ 31,379,401</b>	<b>\$ 101,919,734</b>

See notes to financial statements

## County of Luzerne, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances (Deficit)  
of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2020

**Total Net Change in Fund Balances - Governmental Funds** \$ (8,893,218)

Amounts reported for governmental activities in the statement of activities are different because:

Net income of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities. (123,937)

Capital asset additions are reported as expenditures in the governmental funds. 27,286,142

Depreciation expense on capital assets is reported in the statement of activities. (6,801,943)

The proceeds from sales of capital assets is reported in the statement of revenues, expenditures and change in fund balances, but is not reported in the statement of activities. (16,255)

Disposition of net book value of capital assets net of any proceeds is reported in the statement of activities. This is the gain on disposal of assets recorded during 2020. 62,180

Because some property taxes will not be collected for several months after the County's calendar year ends, they are not considered as available revenues in the governmental funds. Unearned tax revenues decreased by this amount during the year. (242,979)

Nonexchange revenues are 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. (290,182)

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

Repayment bonds payable	\$ 15,440,000	
Amortization of bond discount	2,226,380	
Amortization of deferred refunding, net	(1,393,518)	
Amortization of advance swap payment	126,454	
Change in accrued interest on bonds payable	47,788	16,447,104

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. 67,016

In the statement of activities, certain operating expenses - OPEB, 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 OPEB liability and deferred outflow of resources during the current period. (349,334)

In the statement of activities, 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 represents the amount of the County's operating transfer to Human Service agencies to fund compensated absences. (413,616)

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 of resources during the current period. 2,198,631

**Change in Net Position of Governmental Activities** \$ 28,929,609

See notes to financial statements

**County of Luzerne, Pennsylvania**

Statement of Net Deficit - Proprietary Fund

December 31, 2020

	<b>Internal Service Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 2,880
Restricted cash equivalents	1,330,595
Other receivables	<u>40,108</u>
Total	<u><u>\$ 1,373,583</u></u>
<b>Liabilities and Net Deficit</b>	
<b>Current Liabilities</b>	
Unpaid claims reserve	\$ 3,278,645
<b>Net Deficit</b>	
Unrestricted	<u>(1,905,062)</u>
Total	<u><u>\$ 1,373,583</u></u>

*See notes to financial statements*

## County of Luzerne, Pennsylvania

Statement of Revenues, Expenses and Change in Net Deficit - Proprietary Fund  
Year Ended December 31, 2020

	<u>Internal Service Fund</u>
<b>Operating Revenues</b>	
Charges for services	\$ 722,534
<b>Operating Expenses</b>	
Workers' compensation claims	<u>847,130</u>
Operating loss	(124,596)
<b>Nonoperating Revenues</b>	
Interest income	<u>659</u>
Net loss	(123,937)
<b>Net Deficit, Beginning</b>	<u>(1,781,125)</u>
<b>Net Deficit, Ending</b>	<u><u>\$ (1,905,062)</u></u>

See notes to financial statements

## County of Luzerne, Pennsylvania

Statement of Cash Flows - Proprietary Fund  
Year Ended December 31, 2020

	<b>Internal Service Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from General Fund	\$ 722,534
Cash payments for insurance claims	<u>(799,264)</u>
Net cash used in operating activities	<u>(76,730)</u>
<b>Cash Flows From Investing Activities</b>	
Interest income	659
Proceeds from sale of investments	<u>(553)</u>
Net cash provided by investing activities	<u>106</u>
Net decrease in cash	(76,624)
<b>Cash, Beginning</b>	<u>79,504</u>
<b>Cash, Ending</b>	<u><u>\$ 2,880</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating loss	\$ (124,596)
Adjustment to reconcile operating loss to net cash used in operating activities, Unpaid claims reserve	<u>47,866</u>
Net cash used in operating activities	<u><u>\$ (76,730)</u></u>

See notes to financial statements

# County of Luzerne, Pennsylvania

## Statement of Fiduciary Net Position

December 31, 2020

	<b>Pension Trust Fund</b>	<b>Custodial Funds</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 9,527,469	\$ 7,596,792	\$ 17,124,261
Investments, at fair value:			
U.S. government securities	2,891,769	-	2,891,769
Domestic corporate bonds	28,333,991	-	28,333,991
Domestic common stocks	33,185,303	-	33,185,303
International stocks	32,163,152	-	32,163,152
Mutual funds	89,886,314	-	89,886,314
ETF's and CTF's	25,729,275	-	25,729,275
Alternative investments	59,345,859	-	59,345,859
Total investments	271,535,663	-	271,535,663
Total	<u>\$ 281,063,132</u>	<u>\$ 7,596,792</u>	<u>\$ 288,659,924</u>
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
Due to others	\$ -	\$ 2,867,827	\$ 2,867,827
Due to individuals	-	381,719	381,719
Due to governments	-	2,892,053	2,892,053
Total liabilities	-	6,141,599	6,141,599
<b>Net Position</b>			
Restricted for pension	281,063,132	-	281,063,132
Restricted for other governments and individuals	-	1,455,193	1,455,193
Total net position	281,063,132	1,455,193	282,518,325
Total	<u>\$ 281,063,132</u>	<u>\$ 7,596,792</u>	<u>\$ 288,659,924</u>

See notes to financial statements

## County of Luzerne, Pennsylvania

Statement of Changes in Fiduciary Net Position  
Year Ended December 31, 2020

	Pension Trust Fund	Custodial Funds	Total
<b>Additions</b>			
Contributions:			
County	\$ 13,748,500	\$ -	\$ 13,748,500
Plan members	4,324,353	-	4,324,353
Total contributions	18,072,853	-	18,072,853
<b>Investment Income, net</b>			
Net appreciation in fair value of investments	17,607,081	-	17,607,081
Realized gains on sales of investments	8,871,783	-	8,871,783
Interest	650,629	8,744	659,373
Dividends	2,242,414	-	2,242,414
Investment expense	(621,196)	-	(621,196)
Miscellaneous	4,719	-	4,719
Net investment income, net	28,755,430	8,744	28,764,174
<b>Fines and Fees</b>	-	17,249,661	17,249,661
<b>Taxes</b>	-	64,534,848	64,534,848
<b>Miscellaneous</b>	-	89,539	89,539
Total additions	46,828,283	81,882,792	128,711,075
<b>Deductions</b>			
Benefits paid	20,343,998	-	20,343,998
Death benefits paid	1,415,754	-	1,415,754
Participant contributions refunded	757,567	-	757,567
Administrative expenses	185,042	-	185,042
Payments to governments	-	70,923,679	70,923,679
Distributions to owners	-	7,919,660	7,919,660
Professional services	-	2,899,704	2,899,704
Miscellaneous	-	176,501	176,501
Total deductions	22,702,361	81,919,544	104,621,905
Change in net position	24,125,922	(36,752)	24,089,170
<b>Net Position, Beginning</b>			
As previously reported	256,937,210	-	256,937,210
Restatement for adoption of GASB No. 84 (see Note 18)	-	1,491,945	1,491,945
As restated	256,937,210	1,491,945	258,429,155
<b>Net Position, Ending</b>	<b>\$ 281,063,132</b>	<b>\$ 1,455,193</b>	<b>\$ 282,518,325</b>

See notes to financial statements

**County of Luzerne, Pennsylvania**

 Combining Balance Sheet - Discretely Presented Component Units  
 December 31, 2020

	<b>Luzerne County Community College</b>	<b>Luzerne County Visitors Bureau</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 33,655,184	\$ 773,520	\$ 34,428,704
Accounts receivable	7,664,813	53,549	7,718,362
Inventory	52,897	-	52,897
Due from other governments	754,488	-	754,488
Other assets	34,508	-	34,508
Total current assets	42,161,890	827,069	42,988,959
<b>Long-Term Investments</b>	17,891,240	-	17,891,240
<b>Capital Assets, Net</b>	42,544,265	-	42,544,265
<b>Other Assets</b>	1,219,475	-	1,219,475
Total assets	103,816,870	827,069	104,643,939
<b>Deferred Outflows of Resources</b>			
Pension	1,917,488	-	1,917,488
Post-Retirement Benefits	1,247,820	-	1,247,820
Total deferred outflows of resources	3,165,308	-	3,165,308
Total assets and deferred outflows of resources	\$ 106,982,178	\$ 827,069	\$ 107,809,247
<b>Liabilities, Deferred Inflows of Resources and Net Position (Deficit)</b>			
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 510,900	\$ 43,742	\$ 554,642
Accrued expenses	1,909,932	1,758	1,911,690
Current portion of long-term debt	520,375	-	520,375
Current portion of compensated absences	420,453	-	420,453
Current portion of OPEB Liability	1,650,902	-	1,650,902
Unearned revenue	3,249,041	-	3,249,041
Due to other governments	-	7,995	7,995
Other liabilities	2,877,345	-	2,877,345
Total current liabilities	11,138,948	53,495	11,192,443
<b>Long-Term Debt</b>	8,981,955	-	8,981,955
<b>Compensated Absences</b>	1,681,813	-	1,681,813
<b>Liability for Post Retirement Benefits</b>	25,901,239	-	25,901,239
<b>Net Pension Liability</b>	13,337,433	-	13,337,433
Total liabilities	61,041,388	53,495	61,094,883
<b>Deferred Inflows of Resources</b>			
Pension	2,075,095	-	2,075,095
OPEB	3,717,358	-	3,717,358
Total deferred inflows of resources	5,792,453	-	5,792,453
<b>Net Position</b>			
Net investment in capital assets	32,770,632	-	32,770,632
Restricted	10,036,013	-	10,036,013
Unrestricted (deficit)	(2,658,308)	773,574	(1,884,734)
Total net position	40,148,337	773,574	40,921,911
Total liabilities, deferred inflows of resources and net position	\$ 106,982,178	\$ 827,069	\$ 107,809,247

See notes to financial statements

## County of Luzerne, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Position -  
Discretely Presented Component Units  
Year Ended December 31, 2020

	<b>Luzerne County Community College</b>	<b>Luzerne County Visitors Bureau</b>	<b>Total</b>
<b>Revenues</b>			
Charges for services	\$ 24,372,572	\$ 34,037	\$ 24,406,609
Interest income	794,249	6,215	800,464
Operating grants and contributions	40,036,936	406,430	40,443,366
Gain on sale of assets	3,001,500	-	3,001,500
Capital grants and contributions	1,676,367	-	1,676,367
Other	839,802	18,476	858,278
	<u>70,721,426</u>	<u>465,158</u>	<u>71,186,584</u>
Total revenues			
<b>Expenses</b>			
Operating expenses	30,185,067	453,705	30,638,772
Education and general	35,730,703	-	35,730,703
Debt service, interest	623,266	-	623,266
Unallocated depreciation and amortization	4,019,613	-	4,019,613
	<u>70,558,649</u>	<u>453,705</u>	<u>71,012,354</u>
Total expenses			
Change in net position	162,777	11,453	174,230
<b>Net Position, Beginning</b>	<u>39,985,560</u>	<u>762,121</u>	<u>40,747,681</u>
<b>Net Position, Ending</b>	<u>\$ 40,148,337</u>	<u>\$ 773,574</u>	<u>\$ 40,921,911</u>

See notes to financial statements

# County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

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

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

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

The government-wide financial statements are reported using the *Economic Resources Measurement Focus* and the *Accrual Basis of Accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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.

# County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

## Fund Financial Statements

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

Property taxes, 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.

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

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

The CARES Act Fund accounts for the activity related to the County's share of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) received through the Commonwealth of Pennsylvania Department of Community and Economic Development under the County Relief Block Grant program.

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 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

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Notes to Financial Statements  
December 31, 2020

The County reports the following fiduciary funds:

The County's Fiduciary Funds account for the Pension Trust Fund and the Custodial Fund. The Pension Trust Fund accounts for assets held by the County as trustee for individuals currently or previously employed by the County. The Custodial Fund accounts for assets held by the County in a custodial or agent function related to the Prothonotary, Clerk of Courts, Recorder of Deeds/Register of Wills, Probation, Sheriff and Treasurer.

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

## **New Accounting Standard**

The County adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during 2020. GASB No. 84 established criteria for identifying fiduciary activities of all state and local governments. The implementation of this standard resulted in a restatement of beginning custodial fund net position by \$1,491,945 and expanded note disclosures.

The County adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, during 2020. GASB No. 88 improves the information that is disclosed related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of this standard did not have a material effect on the County's financial statements.

The County adopted GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans*, during 2020. GASB No. 97 increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform; mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit plans and employee benefit plans other than pension or OPEB plans as fiduciary component units in fiduciary fund financial statements; and enhances the relevance, consistency and comparability of accounting and financial reporting for IRC Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The County adopted the requirements of this Statement that exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans or other employee benefit plans and limit the applicability of the financial burden criterion in paragraph 7 of GASB No. 84 to defined benefit pension and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Nos. 67 and 74. The adoption of this standard did not have a significant impact on the County's financial statements.

# County of Luzerne, Pennsylvania

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Notes to Financial Statements

December 31, 2020

## **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, Cash Equivalents 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. Restricted cash within the Health and Human Services Fund represents patient funds held in trust by the programs.

## **Assets Restricted for Capital Projects**

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).

## **Accounts Receivable**

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts.

## **Taxes Receivable**

All property taxes receivable are shown net of an allowance for uncollectible accounts. The property taxes receivable allowance are calculated based on collection history and was approximately \$1,012,000 at December 31, 2020.

The Hotel Room Rental Tax Fund, a nonmajor fund, charges a rental fee for hotel occupancy. At December 31, 2020, the Hotel Room Rental Tax Fund had receivables of approximately \$125,000 with no related allowance.

## **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**

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

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

# County of Luzerne, Pennsylvania

## Notes to Financial Statements

December 31, 2020

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.

### Prepaid Items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

### Capital Assets

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

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

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

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

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

### 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 Revenues

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 revenues on the government-wide and 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 (deficit) that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County reports the deferred bond refunding and deferred outflows of resources related to the net pension and other postemployment benefit liabilities, as deferred outflows.

In addition to liabilities, the County will sometimes report 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 (revenues) until that time. The governmental funds report unearned revenues arising from property taxes and certain other funds, related to loans, 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, and its component units, have another type of item, deferred inflows of resources related to the net pension and other postemployment benefit liabilities that qualifies for reporting in this category.

## 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 governmental purposes.
  - The County Council authorized the executive director or similar individual to assign funds to specific purposes within the Health and Human Service agencies.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

## Net Position Classifications/Policies and Procedures

The County's Government-Wide, Internal Service Fund and Fiduciary Funds classify net position into three components as follows:

- *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.

## 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.

## Interfund Activity

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

## Allocation of Indirect Expenses

The County does not allocate any indirect expenses, including depreciation, except for the Health and Human Services Funds depreciation, which is allocated.

## Use of Estimates

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

## 2. Reporting Entity

In accordance with GASB Statement No. 14, as amended, the County has evaluated all related entities (authorities, commissions and affiliates) for possible inclusion in its financial reporting entity. This guidance 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.

## County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

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.

### Discretely Presented Component Units

Component units that are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government to emphasize that they are legally separate from the County.

The following component units are discretely presented in the accompanying financial statements:

- **Luzerne County Community College (LCCC).** LCCC was established to provide affordable higher education to County residents. The Board of Directors of LCCC are appointed by the Luzerne County Council with the Council retaining no continuing direct control over the Board's decisions. The Board of LCCC appoints management, determines policies relating to the administration of the college and establishes tuition. The Board is also responsible for all fiscal management functions, the contracting for audits and other services, and asset acquisition on behalf of LCCC. The Board of LCCC approves and is responsible for adopting the annual budget. During 2020, the County contributed approximately \$6,200,000 toward the operation and debt service of LCCC and is responsible for operating deficits. This amount is included in the intergovernmental appropriations line of the financial statements. County Council is also responsible for approving any debt issued on behalf of LCCC. The activities of LCCC are conducted within the geographic boundaries of Luzerne County, however, enrollment in LCCC is not limited to residents of Luzerne County.

LCCC 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 percent based on the room rental charge. Funds are collected and controlled by the Luzerne County Treasurer and remitted to the Bureau on a monthly basis. The Bureau receives 20 percent of the hotel taxes collected. Other sources of funding include County funds, Commonwealth matching grants, co-op advertising and membership fees.

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

The Bureau does not issue separate financial statements.

# County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

## 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 (collectively, the Fiscal Programs) 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 the County to these Fiscal Programs and the relationship of these activities to the County.

The Boards of these Fiscal Programs are comprised of members appointed by the Luzerne County Council and the Board of Commissioners of Wyoming County. The Counties have no equity interest in these Fiscal Programs; however, the Counties provide the majority of the funding for each Fiscal Program to match the state and federal awards received.

Separate audit reports for these Fiscal Programs, as of June 30, 2020, are available for public inspection in the office of the Luzerne County Manager.

The County's Pension Trust Fund, as more fully discussed in Note 11, is established for the County's employees. The majority of the governing body of the Pension Trust Fund is comprised of the County Council members and the County has a financial burden to fund the future benefits provided by the Pension Trust Fund. As such, the Pension Trust Fund is reported as a fiduciary component unit pension trust fund and the data for the pension is included in the County's fiduciary fund financial statements as a pension trust fund. A separate annual financial report is issued by the County and available from the office of the Luzerne County Manager.

## Joint Venture

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

- The County is a participant with the County of Lackawanna, Pennsylvania in the Wilkes-Barre/Scranton International Airport (the Airport) with members of Luzerne County Council and the Lackawanna County Commissioners serving as the governing board of the Airport. The Counties have an ongoing financial interest in the Airport by providing operating and capital funding in the amount of \$304,705 for the year ended December 31, 2020. The County of Luzerne has included a net investment in Airport of approximately \$352,000 in its capital assets at December 31, 2020. The Airport's total net position at December 31, 2020 was \$103,114,330.

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

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

## County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

### 3. Deposits With Financial Institutions and Investments

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

- United States Treasury bills;
- Short-term obligations of the United States government or its agencies or instrumentalities;
- Savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurer;
- Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth of Pennsylvania or any agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision;
- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania which are insured by the FDIC or other like insurer. For any amounts in excess of the insured maximum, such deposits must be collateralized by a pledge or assignment of assets pursuant to Act No. 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent 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, 2020, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$119,691,527, compared to the carrying amount of \$93,462,488. At December 31, 2020, \$2,035,604 of the County's bank deposits were covered by the FDIC and \$117,655,923 were exposed to custodial credit risk and were uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended.

At December 31, 2020, the bank and carrying balance of the County's pension deposits with financial institutions, including cash equivalents, was \$9,527,469, which was fully collateralized.

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

## Restricted Cash and Cash Equivalents

As of December 31, 2020, 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:

Governmental Funds	Maturities	Fair Value
Health and Human Services Fund:		
Restricted cash	N/A	\$ 216,261
Capital Projects:		
Restricted cash	N/A	2,521,088
Nonmajor Funds:		
Restricted cash	N/A	9,541,839
Internal Service Fund:		
Money market funds	N/A	1,330,595
Total		<u>\$ 13,609,783</u>

## County Pension Investments

As of December 31, 2020, the County's pension investments are classified as investments and are carried at fair market value and consist of the following:

Pension Trust Fund	Maturities	Fair Value
U.S. government securities	1 - 5 years	\$ 2,891,769
Mutual funds	N/A	89,886,314
Corporate bonds	1 - 10+ years	28,333,991
Domestic common stocks	N/A	33,185,303
International stocks	N/A	32,163,152
ETFs and CTFs	N/A	25,729,275
Alternative investments	N/A	59,345,859
Total		<u>\$ 271,535,663</u>

## Interest Rate Risk

The County pension plan investment policy limits the effective maturity of any single security to 30 years.

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

	Fair Market Value	Investment Maturities (in Years)			
		Less than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
U.S. government securities	\$ 2,891,769	\$ -	\$ 2,891,769	\$ -	\$ -
Domestic corporate bonds	28,333,991	4,749,379	19,785,228	3,112,988	686,396
Total	<u>\$ 31,225,760</u>	<u>\$ 4,749,379</u>	<u>\$ 22,676,997</u>	<u>\$ 3,112,988</u>	<u>\$ 686,396</u>

## County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

### Credit Risk

The County 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 organization. Per the 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).

The County's investments in debt securities of the Pension Trust Fund had the following credit risk, as rated by Moody's at December 31, 2020:

<u>Investment</u>	<u>Credit Quality Rating</u>	<u>Percent of Investment Type</u>
U.S. government securities	AAA	100 %
Corporate bonds	A1	2
Corporate bonds	A2	9
Corporate bonds	A3	17
Corporate bonds	B1	1
Corporate bonds	B2	1
Corporate bonds	BA1	3
Corporate bonds	BA2	3
Corporate bonds	BA3	1
Corporate bonds	BAA	17
Corporate bonds	BAA2	21
Corporate bonds	BAA3	22
Corporate bonds	BBB	3

### Concentration of Credit Risk

The County pension plan's investment policy places the following limits on the amount the Plan may invest in any one issuer as follows:

- Not more than 10 percent of the total market value of the portfolio may be invested in fixed income securities of a single issuer or issue;
- Not more than 20 percent of the portfolio may be invested in collateralized mortgage obligations; and,
- Not more than 5 percent of the total stock portfolio valued at market may be invested in the common stock of any one corporation.

At December 31, 2020, the County's pension plan did not have any investments that exceeded the above concentration policies.

### Foreign Currency Risk

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

# County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2020

## 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.

## Fair Value Measurements

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

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

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

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

The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured, on a recurring basis, at fair value as of December 31, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Governmental activities:				
Money market	\$ 1,330,595	\$ 1,330,595	\$ -	\$ -
Pension trust fund:				
U.S. government securities	2,891,769	\$ 2,891,769	\$ -	\$ -
Mutual funds	89,886,314	89,886,314	-	-
Domestic common stocks	33,185,303	33,185,303	-	-
International stocks	32,163,152	32,163,152	-	-
ETFs and CTFs	25,729,275	25,729,275	-	-
Domestic corporate bonds	28,333,991	-	28,333,991	-
Total	212,189,804	\$ 183,855,813	\$ 28,333,991	\$ -
Alternative investments	<u>59,345,859</u>			
Total pension investments	<u>271,535,663</u>			
Total investments	<u>\$ 272,866,258</u>			
Investment derivatives liability	\$ (203,201)	\$ -	\$ -	\$ (203,201)

## County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2020

U.S. government securities, mutual funds, domestic common stocks, international stocks and exchange traded funds (ETFs) and closed end funds (CEFs) classified in Level 1 of the hierarchy are valued using prices quoted in active markets for those securities. Domestic corporate bonds classified in Level 2 of the hierarchy are valued based on the latest trade date information. 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.

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

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	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative investments:				
Axonic Credit	\$ 6,305,107	\$ -	Quarterly	90 days
Canyon Valuation Realization	9,138,088	-	Quarterly	65 days
GoldenTree Select	9,735,037	-	Quarterly	90 days
WQMS Global Equity Active Extension Offshore Fund, Ltd	6,380,626	-	Monthly	30 days
Millennium International	14,293,480	-	Quarterly	95 days
Hamilton Lane Private Markets Opportunity Fund LP	6,709,916	-	Not applicable	Not applicable
Cowen Healthcare Investments III LP	1,355,242	-	Not applicable	Not applicable
Fortress Lending Fund	4,159,863	-	Not applicable	Not applicable
Oaktree Opportunities XI	250,000	-	Not applicable	Not applicable
Goldman Sachs Vintage VIII	1,018,500	-	Not applicable	Not applicable
	<u>\$ 59,345,859</u>	<u>\$ -</u>		

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 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 noninvestment grade and nonrated debt securities. The Fund seeks to identify the most attractive portion of the capital structure through which to exploit mispricings 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 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 percent in aggregate, with approximately 170 percent long exposure and 70 percent 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 percent; and (iv) target a realized annual tracking error of between 3 percent and 4 percent.

## County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

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 healthcare companies, having raised over \$90 billion in equity capital for healthcare companies since the start of 2015. Additionally, Cowen is well known for its research on the healthcare sector, publishing research on over 230 healthcare 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.

Oaktree Opportunities XI is a part of Oaktree Capital Management. They are a leading global investment management firm headquartered in Los Angeles, California, with more than 950 employees throughout offices in 19 cities worldwide and had approximately \$113.3 billion in assets under manager (as of March 31, 2020). Oaktree's senior executives and investment professionals have focused on less efficient markets and alternative investments for over 34 years. Oaktree emphasizes an opportunistic, value-oriented approach to investments in distressed debt, corporate debt (including mezzanine finance, high yield debt and senior loans), control investing, convertible securities, real estate, listed equities and multi-strategy solutions.

Goldman Sachs Vintage VIII is managed by Goldman Sachs Asset Management (GSAM), part of Goldman Sachs' Investment Management Division. Goldman Sachs Alternative Investments & Manager Selection Group (AIMS) will be responsible for managing the day to day portfolio management decision for the Fund. As of September 30, 2018, GSAM and its advisory affiliates acted as investment adviser in respect of approximately \$1.55 trillion in assets (including seed capital and assets under supervision). AIMS is one of the largest allocators to the private markets with over \$60 billion of committed capital to these strategies, over 500 manager relationships globally, and over 9,100 private market funds evaluated to date (as of September 30, 2018). The AIMS Group helps institutional and individual investors with program design, manager diligence, portfolio construction and risk management.

### **Component Units, Luzerne County Community College and Luzerne County Visitors Bureau**

#### **Custodial Credit Risk**

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, LCCC's or the Bureau's deposits may not be returned to it. LCCC's investment policy requires pledging of collateral for all bank balances in excess of FDIC with the collateral held by an agent of LCCC in the agent's name. The Bureau does not have a formal policy for custodial credit risk.

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

At December 31, 2020, the bank balance of LCCC's and the Bureau's deposits with financial institutions was \$33,682,845 and \$792,370, respectively, compared to the carrying amount of \$33,647,384, excluding petty cash totaling \$7,800 and \$773,520, respectively. The difference is caused by items in-transit and outstanding checks. \$33,714,963 of LCCC's deposits and \$542,370 of the Bureau'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.

## 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 percent of calculated market value. The County bills its own property taxes, which are collected by elected tax collectors. Real estate property taxes levied for 2020 are recorded as receivables, net of estimated uncollectible amounts. The net receivables collected during 2020 and expected to be collected within the first sixty (60) days of 2020 are recognized as revenues in 2020. Net receivables estimated to be collectible subsequent to February 28 are reflected in unearned revenues. Prior years' levies are recorded using these same principles, and remaining receivables are annually reevaluated as to collectability. The rate of taxation in 2020 was 6.17 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, 2020 were approximately \$11,640,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$1,012,000.

## 5. Due From Other Governments

The amount reported in the County's various governmental funds at December 31, 2020 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 285,273	\$ 636,035	\$ 40,256	\$ 961,564
Office of Community Development	-	933,534	-	933,534
Health and Human Services Funds	5,661,349	10,236,195	2,043,346	17,940,890
Nonmajor Funds	<u>1,677,271</u>	<u>2,517,590</u>	<u>-</u>	<u>4,194,861</u>
Total	<u>\$ 7,623,893</u>	<u>\$ 14,323,354</u>	<u>\$ 2,083,602</u>	<u>\$ 24,030,849</u>

## 6. Notes Receivable, 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 five to 15 years and are collateralized by participation agreements or mortgages and notes.

## County of Luzerne, Pennsylvania

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Notes to Financial Statements  
December 31, 2020

The balance at December 31, 2020, consists of the following:

Business development loans	\$ 17,592,338
Other loans	<u>4,363</u>
Total business development loans	<u>\$ 17,596,701</u>

### HOME Program Notes Receivable

HOME Program notes receivable result from loans used for the acquisition and/or rehabilitation of rental properties that will contain at least two rental units. If the participant complies with all program regulations, either the full loan principal and interest will be forgiven at the end of the term or a partial forgiveness provision with an interest rate of 2 percent, depending on the program. If a participant does not comply with the program regulations, the loan will need to be repaid by its original terms, amortizing between five to 15 years and interest accruing at 5 percent.

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 percent grant funds and 50 percent loan assistance or (2) 40 percent grant funds and 60 percent loan assistance. The loan assistance will be in the form of a ten year noninterest bearing note requiring monthly repayments. The grant portion and the assistance provided through the Rehabilitation Grant Program will be forgiven 10 percent annually over a ten year period. OCD 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. Revenues 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, 2020 was \$9,302,245.

# County of Luzerne, Pennsylvania

## Notes to Financial Statements

December 31, 2020

### 7. Capital Assets

Capital assets activity for governmental activities for the year ended December 31, 2020, was as follows:

	Balance, January 1, 2020	Acquisitions	Disposals	Transfer	Balance, December 31, 2020
Capital assets not being depreciated:					
Land	\$ 4,284,135	\$ -	\$ -	\$ -	\$ 4,284,135
Construction-in-progress	4,542,962	16,984,464	-	(5,423,904)	16,103,522
Total capital assets, not being depreciated	<u>8,827,097</u>	<u>16,984,464</u>	<u>-</u>	<u>(5,423,904)</u>	<u>20,387,657</u>
Capital assets being depreciated:					
Infrastructure	79,081,273	124,061	-	3,031,580	82,236,914
Investment in airport	668,061	-	-	-	668,061
Land improvements	528,339	-	-	-	528,339
Buildings and improvements	95,548,027	4,237,006	(13,322)	809,345	100,581,056
Machinery and equipment	24,458,864	5,940,611	(3,950,473)	1,582,979	28,031,981
Total capital assets, being depreciated	<u>200,284,564</u>	<u>10,301,678</u>	<u>(3,963,795)</u>	<u>5,423,904</u>	<u>212,046,351</u>
Less accumulated depreciation for:					
Infrastructure	(44,238,969)	(1,382,211)	-	-	(45,621,180)
Investment in airport	(300,787)	(14,931)	-	-	(315,718)
Land improvements	(73,064)	(23,178)	-	-	(96,242)
Buildings and improvements	(48,160,848)	(3,544,916)	143,013	(45,354)	(51,608,105)
Machinery and equipment	(19,029,412)	(1,836,707)	3,882,962	45,354	(16,937,803)
Total accumulated depreciation	<u>(111,803,080)</u>	<u>(6,801,943)</u>	<u>4,025,975</u>	<u>-</u>	<u>(114,579,048)</u>
Net capital assets, being depreciated	<u>88,481,484</u>	<u>3,499,735</u>	<u>62,180</u>	<u>5,423,904</u>	<u>97,467,303</u>
Governmental activities capital assets, net	<u>\$ 97,308,581</u>	<u>\$ 20,484,199</u>	<u>\$ 62,180</u>	<u>\$ -</u>	<u>\$ 117,854,960</u>

Depreciation expense was charged to governmental activities in the statement of activities at December 31, 2020 as follows:

Unallocated	\$ 6,498,131
Health and human services	<u>303,812</u>
Total	<u>\$ 6,801,943</u>

At December 31, 2020, the County has committed to various ongoing construction projects. Total costs related to these projects amount to approximately \$16,104,000 which is included in construction-in-progress at December 31, 2020. The County is committed to additional costs of approximately \$15,800,000 related to these projects, which will be funded through a combination of existing resources and federal and state grant awards.

## County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

### Component Unit, Luzerne County Community College

Capital asset activity for LCCC for the year ended June 30, 2020 was as follows:

	<u>Balance, July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2020</u>
Capital assets not being depreciated:				
Land	\$ 1,382,185	\$ -	\$ -	\$ 1,382,185
Construction-in-progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,382,185</u>	<u>-</u>	<u>-</u>	<u>1,382,185</u>
Capital assets being depreciated:				
Permanent campus	88,005,218	2,414,187	-	90,419,405
Furniture and fixtures	3,715,901	120,444	-	3,836,345
Equipment	28,823,221	366,861	45,050	29,145,032
Library books	2,173,683	-	-	2,173,683
Microfilm and AV equipment	868,464	-	-	868,464
Motor vehicles	659,439	49,561	78,400	630,600
Total capital assets, being depreciated	<u>124,245,926</u>	<u>2,951,053</u>	<u>123,450</u>	<u>127,073,529</u>
Less accumulated depreciation	<u>(82,013,776)</u>	<u>(4,019,613)</u>	<u>121,940</u>	<u>(85,911,449)</u>
Total capital assets, being depreciated, net	<u>42,232,150</u>	<u>(1,068,560)</u>	<u>245,390</u>	<u>41,162,080</u>
Component unit capital assets, net	<u>\$ 43,614,335</u>	<u>\$ (1,068,560)</u>	<u>\$ 245,390</u>	<u>\$ 42,544,265</u>

Depreciation expense was \$4,019,613 for the year ended June 30, 2020.

## County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

### 8. Long-Term Obligations

Description	January 1, 2020	Additions	Refunding/ Payments	December 31, 2020	Current Portion (Due in 2021)
(a) 2003 General Obligation Bonds, Series C	\$ 2,540,000	\$ -	\$ (1,600,000)	\$ 940,000	\$ 940,000
(b) 2015 General Obligation Refunding Bonds, Series A	90,135,000	-	(3,405,000)	86,730,000	5,930,000
(c) 2015 General Obligation Refunding Bonds, Series B	10,430,000	-	(3,950,000)	6,480,000	2,055,000
(d) 2017 Luzerne County Industrial Development Authority Guaranteed Lease Revenue Bonds	33,340,000	-	(3,010,000)	30,330,000	2,440,000
(e) 2017 General Obligation Refunding Bonds, Series A	36,410,000	-	(2,135,000)	34,275,000	5,055,000
(f) 2017 General Obligation Refunding Bonds, Series B	12,440,000	-	(1,300,000)	11,140,000	1,365,000
(g) 2019 General Obligation Notes	33,305,000	-	(40,000)	33,265,000	110,000
Total	218,600,000	-	(15,440,000)	203,160,000	17,895,000
Plus bond premiums	18,297,002	-	(2,226,380)	16,070,622	-
Less deferred refunding amount	(9,719,103)	-	1,393,518	(8,325,585)	-
	<u>\$ 227,177,899</u>	<u>\$ -</u>	<u>\$ (16,272,862)</u>	<u>\$ 210,905,037</u>	<u>\$ 17,895,000</u>

Specific information on each debt instrument is as follows:

- During 2003, the County issued \$21,040,000 of General Obligation Bonds (Series C of 2003), payable in varying annual installments plus interest of 5.25 percent, 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.
- During 2015, the County issued \$98,925,000 of General Obligation Refunding Bonds (Series A of 2015) with annual principal payments and semi-annual interest payments with an interest rate of 5.00 percent. 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, fee and expenses related to the issuance of the bonds.
- During 2015, the County issued \$25,855,000 of General Obligation Refunding Bonds (Series B of 2015) with annual principal payments and semi-annual interest payments with an interest rate of 5.00 percent. 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.

## County of Luzerne, Pennsylvania

### Notes to Financial Statements

December 31, 2020

- d. During 2017, the County issued \$36,315,000 of 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 percent 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.
- e. During 2017, the County issued \$37,500,000 of General Obligation Refunding Bonds (Series A of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 5.00 percent. 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.
- f. During 2017, the County issued \$13,220,000 of General Obligation Refunding Bonds (Series B of 2017) with annual principal payments and semi-annual interest payments with an interest rate of 5.00 percent. 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.
- g. During 2019, the County issued \$33,305,000 of General Obligation Notes (Series of 2019) with annual principal payments and semi-annual interest payments with an interest rate of 2.174 percent. 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.

The County's outstanding long-term debt obligations contain provisions that if there is an event of default or termination that materially impairs the underlying collateral or the County's ability to satisfy its obligations, all amounts outstanding may become due and payable immediate. Events of default include failure to pay any principal or interest installment when due or failure by the County to observe or perform any covenants in the agreements.

Interest paid on these bonds and notes payable during the year ended December 31, 2020 amounted to \$9,833,889.

The following summarizes the County's estimated future debt service requirements on these bonds and notes payable, net of the effect of the interest rate swaps (Note 9), as of December 31, 2020. As rates vary, net interest rate swap payments will vary.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
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	21,885,000	5,444,177	27,329,177
2026 - 2030	103,265,000	11,069,368	114,334,368
Total	<u>\$ 203,160,000</u>	<u>\$ 47,788,299</u>	<u>\$ 250,948,299</u>

## County of Luzerne, Pennsylvania

Notes to Financial Statements

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### 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, 2020, the amount of defeased bonds outstanding was \$61,960,000.

At December 31, 2020, the following bonds outstanding had been defeased by the County:

Series	Final Maturity	Outstanding Principal at December 31, 2020
General Obligation Bonds, Series A of 2008	2027	\$ 27,835,000
General Obligation Bonds, Series B of 2008	2027	11,170,000
LCIDA Lease Revenue Bonds, Series of 2008	2027	9,295,000
LCIDA Lease Revenue Bonds, Series of 2009	2027	13,660,000
Total		<u>\$ 61,960,000</u>

### Component Unit, Luzerne County Community College

At June 30, 2020, LCCC's long-term debt obligations were as follows:

Description	July 1, 2019	Additions	Payments	June 30, 2020	Current Portion
General Municipal Authority of the City of Nanticoke Original Loan Agreement Lease and Sublease Agreement 2017	\$ 7,725,957	\$ -	\$ 290,373	\$ 7,435,584	\$ 371,195
Hazleton Area Industrial Authority Guaranteed College Revenue Note 2011	2,210,438	-	143,692	2,066,746	149,180
Total	<u>\$ 9,936,395</u>	<u>\$ -</u>	<u>\$ 434,065</u>	<u>\$ 9,502,330</u>	<u>\$ 520,375</u>

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 percent 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.

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.

# County of Luzerne, Pennsylvania

## Notes to Financial Statements

December 31, 2020

Provisions of the Community College Act require that, should LCCC fail to make its required debt service payment, the Secretary of Education is required to withhold from LCCC out of any subsidy payment of any type due LCCC from the Commonwealth, an amount equal to the debt service payment owed by LCCC.

Interest paid by the College amounted to \$458,016 for the year ended June 30, 2020.

The following summarizes LCCC's estimated future debt service requirements on these bonds and note payable as of June 30, 2020:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years Ending June 30:			
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
2025	674,430	200,671	875,101
2026 - 2030	4,057,904	635,981	4,693,885
2031	2,465,886	63,913	2,529,799
Total	<u>\$ 9,502,330</u>	<u>\$ 1,951,901</u>	<u>\$ 11,454,231</u>

## 9. Derivative Financial Instruments

### Basis Swaps

#### Objective of the Basis Swaps

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. 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. 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.

#### Terms

Pursuant to the terms of the basis swap contracts, the County receives a variable interest rate equal to 67 percent of the one-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 percent 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>Issues</u>	<u>Counterparty</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Variable Rate Receivable</u>	<u>Variable Rate Paid</u>	<u>Fair Value</u>	<u>Swap Termination</u>	<u>Counter-Party Credit Rating</u>
Series A of 2015	JP Morgan	\$ 60,000,000	6/1/2013	67% LIBOR	SIFMA	\$ (121,933)	10/1/2026	Aa2/A+
Series A of 2015	PNC	40,000,000	6/1/2013	67% LIBOR	SIFMA	(81,268)	10/1/2026	A2/A
Total		<u>\$ 100,000,000</u>				<u>\$ (203,201)</u>		

At December 31, 2020, 67 percent LIBOR rate was 0.14 percent and the SIFMA rate was 0.24 percent.

## County of Luzerne, Pennsylvania

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Notes to Financial Statements

December 31, 2020

### **Fair Value**

At December 31, 2020, the basis swaps had an aggregate negative fair value of \$(201,203) estimated using the zero-coupon method, which is reported as investment derivatives, pay variable/receive variable basis swaps 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 swaps, 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, 2020, the County was not exposed to credit risk because the basis swaps (the swaps) had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

The basis swaps 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, 2020, 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, 2020, the associated debt used a variable rate of interest based on 67 percent of the one-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.

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
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## 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.

## 10. Compensated Absences

The changes in the County's compensated absences in 2020 are summarized as follows:

Balance, January 1, 2020	\$ 4,735,897
Increase	4,503,156
Decrease	<u>(4,101,614)</u>
Balance, December 31, 2020	5,137,439
Less current portion	<u>(39,112)</u>
Balance, December 31, 2020	<u>\$ 5,098,327</u>

The County pays its compensated absences from the General Fund.

## 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.

Membership of the Plan consisted of the following at December 31, 2019, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,490
Terminated plan members entitled to but not yet receiving benefits	462
Active plan members	<u>1,328</u>
Total	<u><u>3,280</u></u>
Number of participating employers	<u><u>2</u></u>

## County of Luzerne, Pennsylvania

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Notes to Financial Statements  
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### Benefits Provided

The Plan provides for normal and early retirement, disability and death benefits to its members and their beneficiaries. The Plan also provides retirement, disability and death benefits to eligible employees of the Wilkes-Barre/Scranton International Airport, a joint venture with the County. 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 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 percent of the final average salary of the participant.

If a participant dies in active service after age 60 or after ten 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 ten 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.

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 percent joint and survivor annuity (100 percent of the participant's monthly pension to be paid as long as either lives), a 50 percent joint and survivor annuity (50 percent 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.

### Funding Policy and Contributions

Each employee of Luzerne County is required to contribute 5 percent of their salary to the Plan, and may elect to contribute up to an additional 10 percent 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 \$4,324,353 to the Plan for the year ended December 31, 2020.

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 salary of the respective department, Airport, or Authority and dividing it by the total payroll of all contribution entities for the year. Per Act 96 of 1971, as amended, contribution requirements of the Plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. The County contributed \$13,748,500 to the Plan for the year ended December 31, 2020.

The annual required contribution was determined based on the most recent annual actuarial valuation dated December 31, 2019. The actuarial assumptions included (a) 7.00 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 7.25 percent for the first ten years of service, then at 3 percent 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 2.75 percent. 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  
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### Deposits and Investments

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

<b>Asset Class</b>	<b>Target</b>	<b>Long-Term Expected Real Rate of Returns</b>
Domestic equity	33.0 %	5.90 %
International equity	20.0	6.20
Fixed income	30.0	1.55
Alternative investments	15.0	6.90
Cash	2.0	0.10

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. The Plan's target asset allocation for the 2019 measurement period are listed in the table above.

### Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was 11.3 percent). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

The County's December 31, 2020 net pension liability, measured at December 31, 2020, amounted to \$80,098,889. The net pension liability attributed to participation in the Plan was measured as of December 31, 2020, except for the net pension liability related to the Fiscal Programs, which were measured as of December 31, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, except for the total pension liability related to the Fiscal Programs, which were determined by an actuarial valuation as of December 31, 2018.

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, 2020, the County's reported proportionate share of the Plan's net pension liability was 98.47 percent, which was a decrease of 0.01 percent from its proportion measured as of December 31, 2019.

# County of Luzerne, Pennsylvania

Notes to Financial Statements

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## Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2019, with liabilities measured at December 31, 2020, using the following actuarial methods and assumptions:

Actuarial valuation date	December 31, 2019
Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Actuarial assumptions:	
Projected salary increases	7.25% for the first ten years of service, then 3.00%
Inflation	2.75%
Interest rate	7.00%
Cost-of-living adjustments	No cost-of-living adjustments are assumed
Asset valuation method	Building-Block method

Mortality rates were based on the RP-2000 Mortality Tables for males and females projected to 2015. The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2018. The next assumption review will be in 2023. No significant events or changes in assumptions occurred between the valuation date and fiscal year-ends.

## Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

## 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 percent, as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percent point lower (6.00 percent) or 1 percent point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.00%)</u>
Net pension liability	\$ 121,478,365	\$ 80,098,889	\$ 42,870,600

## Pension Expense and Deferred Outflows of Resources

For the year ended December 31, 2020, the County recognized pension expense of \$11,292,003. At December 31, 2020, the County reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,541,269	\$ 9,695,825
Net difference between projected and actual earnings on investments	-	11,059,137
Change in actuarial assumptions	8,818,152	-
Change in proportion	-	85,020
County contributions subsequent to measurement date	713,467	-
Total	<u>\$ 11,072,888</u>	<u>\$ 20,839,982</u>

## County of Luzerne, Pennsylvania

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The \$713,467 reported as deferred outflow of resources related to pensions resulting from County contributions 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31:	
2021	\$ 812,475
2022	812,475
2023	(8,245,700)
2024	(3,855,645)
2025	(4,164)
Total	<u>\$ (10,480,559)</u>

### 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](http://www.psers.state.pa.us).

PSERS provides retirement, disability and death benefits. Participants contribute at rates ranging between 5.25 percent and 10.30 percent, depending on date of original hiring. LCCC contributes at a contractually required pension contribution rate (33.46 percent of covered payroll for the year ended June 30, 2020).

#### SERS

SERS is a governmental cost-sharing, multiple-employer defined benefit pension plan established by the Commonwealth of Pennsylvania to provide pension benefits for employees of state government and certain independent agencies. SERS issues a publicly available financial report that can be obtained at [www.sers.state.pa.us](http://www.sers.state.pa.us).

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

Covered employees are required by statute to contribute at a rate of 6.25 percent to 9.30 percent dependent on member class, percent of their gross pay. In addition, LCCC contributes at a contractually required contribution rate (ranged from 19.18 percent to 36.04 percent of annual payroll for the year ended June 30, 2020).

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

The PSERS net pension liability was measured as of June 30, 2019, 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, 2019 to June 30, 2020. 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, 2020, LCCC's proportion was 0.0083 percent, which was an increase of 0.0001 percent from its proportion measured as of June 30, 2019.

## County of Luzerne, Pennsylvania

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The SERS net pension liability was measured as of December 31, 2019, 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, 2019, LCCC's proportion was 0.0052 percent, which was a decrease from its proportion of 0.0004 percent measured as of December 31, 2018.

	<u>PSERS</u>	<u>SERS</u>	<u>Total</u>
Deferred outflows of resources	\$ 763,708	\$ 1,153,780	\$ 1,917,488
Net pension liability	3,883,000	9,454,433	13,337,433
Deferred inflows of resources	381,000	1,694,095	2,075,095
Pension expense	440,834	1,335,470	1,776,304

### 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 percent and 7.125 percent for PSERS and SERS, respectively as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (6.25 percent and 6.125 percent) or 1 percentage point higher (8.25 percent and 8.125 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability, PSERS	\$ 4,837,000	\$ 3,883,000	\$ 3,075,000
Net pension liability, SERS	\$ 12,013,406	\$ 9,454,433	\$ 7,263,651

### TIAA-CREF

The plan is a multiple-employer 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) percent to a maximum based on IRS limits of total salary.

The employee may choose the specific percentage contribution within the required guidelines. LCCC contributes 7.5 percent of compensation earned up to \$7,800 and 10 percent of the amount earned in excess of \$7,800 for classified employees, 13 percent of total applicable salaries for administration and 10 percent of total applicable salaries for faculty. During the year ended June 30, 2020, LCCC contributed \$1,526,109 for eligible employees.

## 12. Other Post-Employment Benefits

### Plan Description

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

## County of Luzerne, Pennsylvania

Notes to Financial Statements

December 31, 2020

Membership of the Plan consisted of the following at January 1, 2020 the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	28
Active plan members	<u>286</u>
Total	<u><u>314</u></u>

### Funding Policy

The County pays all of the cost for prison members who retired prior to January 1, 2013 with at least 20 years of service. For those prison retirees who retired prior to January 1, 2013 with less than 20 years of service pay a percentage of the premium ranging from 50 percent with 10 years of service to 5 percent with 19 years of service. If retiring after January 1, 2013 with 20 years of service, the retiree pays \$60 per month. For those retiring after January 1, 2013 with less than 20 years of service, the retiree pays \$60 per month plus a percentage of the premium ranging from 50 percent with ten years of service to 5 percent with 19 years of service. The County Detectives pay \$100 per month and are only covered until eligible for Medicare.

The OPEB 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.

### Net OPEB Liability

The County's net OPEB liability was measured at December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, rolled forward to December 31, 2020. The components of the net OPEB liability of the OPEB Plan as of December 31, 2020 were as follows:

Total OPEB liability	\$ 9,519,988
Plan fiduciary net position	<u>-</u>
Plan net OPEB liability	<u><u>\$ 9,519,988</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	<u><u>0.00%</u></u>

### Changes in the Total OPEB Liability

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a) - (b)</u>
Balance, July 1, 2019	\$ 8,770,780	\$ -	\$ 8,770,780
Changes for the year:			
Employer contributions	-	384,413	(384,413)
Service cost	391,358	-	391,358
Interest	246,709	-	246,709
Difference between expected and actual experience	(257,158)	-	(257,158)
Changes in assumptions	752,712	-	752,712
Benefits payments	<u>(384,413)</u>	<u>(384,413)</u>	<u>-</u>
Net changes	<u>749,208</u>	<u>-</u>	<u>749,208</u>
Balance, June 30, 2020	<u><u>\$ 9,519,988</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,519,988</u></u>

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

## Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Investment return	3.50%, net of investment expense and including inflation
Discount rate	2.00%
Healthcare cost trend rates	6.00% initially, grading down to 4.25% ultimate

Mortality rates were RP2000 for males and females with blue collar adjustments, projected generationally with scale BB.

## Discount Rate

The discount rate used to measure the total pension liability for the OPEB Plan was 2.00 percent, which was a decrease from the 2.75 percent used in 2019.

## Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00 percent) or 1-percentage-point higher (3.00 percent) than the current discount rate:

	1% Decrease (1.00%)	Discount Rate (2.00%)	1% Increase (3.00%)
Net OPEB liability	\$ 10,457,243	\$ 9,519,988	\$ 8,663,813

## Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (3.25 percent) or 1-percentage-point higher (5.25 percent) than the current discount rate:

	1% Decrease (3.25%)	Healthcare Cost Trend Rates (4.25%)	1% Increase (5.25%)
Net OPEB liability	\$ 8,471,301	\$ 9,519,988	\$ 10,754,227

## OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2020, the County recognized OPEB expense of \$763,747.

At December 31, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 225,013
Changes of assumptions	1,322,865	237,780
Total	\$ 1,322,865	\$ 462,793

## County of Luzerne, Pennsylvania

### Notes to Financial Statements

December 31, 2020

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

Years ending December 31:		
2021	\$	95,680
2022		95,680
2023		95,680
2024		95,680
2025		95,680
Thereafter		<u>381,672</u>
Total	\$	<u>860,072</u>

### Component Unit, Luzerne County Community College

LCCC provides post-retirement benefits to any faculty, administrative or classified personnel of LCCC as stipulated in their respective agreements, provided they are both eligible for and also elect early retirement. LCCC pays premiums for medical, prescription drug, dental and life insurance at age 50 with 15 years of service. Benefits are available until the retiree attains the age of 66. This benefit is unfunded and financed by LCCC on a pay-as-you-go basis.

The contribution requirements of plan members and LCCC are established and may be amended by LCCC's Board. LCCC made estimated contributions to the plan of \$1,062,692 for the year ended June 30, 2020.

### OPEB Liabilities, OPEB Expense and Deferred Outflows and Inflows of Resources

The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of this date. The OPEB liability at June 30, 2020 was \$27,552,141 and LCCC had associated deferred outflows of resources and deferred inflows of resources amounting to \$1,247,820 and \$3,717,358, respectively.

### Discount Rate and Healthcare Cost Trend Rates Sensitivity

The following is a sensitivity analysis of the net OPEB liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 3.36 percent as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (2.36 percent) or 1 percentage point higher (4.36 percent) than the current rate:

	<u>1% Decrease (2.36%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (4.36%)</u>
Net OPEB liability	\$ 30,150,785	\$ 27,552,141	\$ 25,305,141

The following is a sensitivity analysis of the net OPEB liability to changes in the healthcare cost trend rate. The table below presents the OPEB liability of the Plan calculated using the healthcare cost trend rate of 5.50 percent as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (4.50 percent) or 1 percentage point higher (6.50 percent) than the current rate:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (6.50%)</u>
Net OPEB liability	\$ 25,902,568	\$ 27,552,141	\$ 29,443,538

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

## 13. Fund Balance Classification

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	\$ 1,649,839	\$ -	\$ 51,183	\$ -	\$ -	\$ -	\$ 1,701,022
Notes receivable	-	18,390,813	-	-	-	-	18,390,813
Total nonspendable	<u>\$ 1,649,839</u>	<u>\$ 18,390,813</u>	<u>\$ 51,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,091,835</u>
Restricted for:							
Grant programs	\$ -	\$ -	\$ 10,992,914	\$ -	\$ -	\$ 2,894,319	\$ 13,887,233
Liquid fuels	-	-	-	-	-	1,884,539	1,884,539
Emergency 911	-	-	-	-	-	3,137,480	3,137,480
Probation	-	-	-	-	-	2,470,381	2,470,381
Loan programs	-	18,943,187	-	-	-	-	18,943,187
Debt service	-	-	-	-	-	-	-
Capital projects	-	-	-	-	2,565,050	8,220,812	10,785,862
Total restricted	<u>\$ -</u>	<u>\$ 18,943,187</u>	<u>\$ 10,992,914</u>	<u>\$ -</u>	<u>\$ 2,565,050</u>	<u>18,607,531</u>	<u>\$ 51,108,682</u>
Assigned for:							
Capital projects	\$ 2,513,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,513,604
Grant programs	-	-	-	-	-	1,503,984	1,503,984
Solid waste	-	-	-	-	-	5,755,279	5,755,279
Domestic relations	-	-	-	-	-	5,512,607	5,512,607
Total assigned	<u>\$ 2,513,604</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>12,771,870</u>	<u>\$ 15,285,474</u>

## 14. Deficit Fund Balances

The CARES Act Fund has an unassigned net deficit fund balance of \$422 at December 31, 2020.

The County anticipates future changes within revenues and tighter expenditure controls that will result in positive changes in fund balances in future years.

The Internal Service Fund has a net deficit of \$1,905,062 at December 31, 2020. 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.

## 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.

## County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

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, 2020 and 2019, the County has recorded a liability for claims incurred at their net present value of \$3,278,645 and \$3,230,779, respectively. This liability is calculated based on past loss experience and is discounted at a rate of 1.45 percent and 2.25 percent at December 31, 2020 and 2019, 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance, January 1	\$ 3,230,779	\$ 4,178,878
Claims incurred	877,203	97,005
Claims paid	<u>(829,337)</u>	<u>(1,045,104)</u>
Balance, December 31	<u>\$ 3,278,645</u>	<u>\$ 3,230,779</u>

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

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

Changes in the balance of employee health care liabilities for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance, January 1	\$ 472,084	\$ 260,688
Claims incurred	20,455,722	20,209,134
Claims paid	<u>(20,444,898)</u>	<u>(19,997,738)</u>
Balance, December 31	<u>\$ 482,908</u>	<u>\$ 472,084</u>

### 16. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2020 are as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 7,315,231	\$ 769,614
Office of Community Development Fund	-	38,182
Health and Human Services Funds	390,193	5,778,058
CARES Act Fund	-	971,984
Capital projects Fund	464,739	-
Nonmajor Funds	-	<u>612,325</u>
Total	<u>\$ 8,170,163</u>	<u>\$ 8,170,163</u>

## County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

The amounts due to the General Fund are generally for payroll. All of these items are expected to be repaid in 2021. Amounts due to the Fiscal Programs are reported on the financial statements as due to agencies and amounted to \$386,641 at December 31, 2020.

Interfund transfers in 2020 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Health and Human Services Funds	\$ 102,400	\$ 8,186,232
Debt Service Fund	-	24,623,889
CARES Act Fund	5,115,068	-
Capital Projects	-	2,000,000
Nonmajor Funds, Probation	1,622,887	-
Nonmajor Funds, Domestic Relations Office	-	1,927,868
Nonmajor Funds, Emergency 911	-	20,700,000
Total General Fund	<u>6,840,355</u>	<u>57,437,989</u>
Health and Human Services Funds, General Fund	<u>8,731,561</u>	<u>102,400</u>
Debt Service Fund, General Fund	<u>24,623,889</u>	<u>-</u>
CARES Act Fund:		
General Fund	-	5,115,068
Nonmajor Funds, Probation	-	400,000
Total CARES Act Fund	<u>-</u>	<u>5,515,068</u>
Nonmajor Funds:		
Domestic Relations Office	1,927,868	-
Emergency 911	20,700,000	-
Probation	400,000	1,622,887
Total Nonmajor Funds	<u>23,027,868</u>	<u>1,622,887</u>
Capital Projects Fund, General Fund	<u>2,000,000</u>	<u>69</u>
Total	<u>\$ 65,223,673</u>	<u>\$ 64,678,413</u>

The difference between transfers in and transfers out of \$545,260 is due to the Fiscal Programs having a June 30, 2020 year-end.

Transfers in to the Debt Service Fund \$24,623,889 were used to fund the County's annual debt service payments from general real estate taxes collected. Transfers in to the General Fund \$1,622,887 were used to refund expenses paid by the General Fund on behalf of probation.

Transfers out of the General Fund included \$8,539,947 in operating subsidy for the Health and Human Services Funds, \$1,927,868 in operating subsidy for Domestic Relations, and \$2,000,000 and \$20,700,000 in funding for Capital Projects to the Capital Projects and Emergency 911 Funds, respectively.

Transfers out of the CARES Act Fund included reimbursement of allowable costs under the County Relief Block Grant paid to the General Fund in the amount of \$5,115,068 and to Probation in the amount of \$400,000.

# County of Luzerne, Pennsylvania

Notes to Financial Statements  
December 31, 2020

## 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.

## 18. Restatement of Beginning Net Position and Implementation of GASB No. 84, *Fiduciary Activities*

During the year ended December 31, 2020, the County adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of financial statements by including accruals and ending net position to custodial funds not previously required. Beginning net position has been restated to reflect this change. The adjustment to beginning balances are as follows:

Fiduciary activities, Custodial Funds	
Net position, December 31, 2019, as previously reported	\$ -
Restatement due to change in accounting principle	<u>1,491,945</u>
Net position, January 1, 2020, as restated	<u><u>\$ 1,491,945</u></u>

## 19. New Accounting Pronouncements

The GASB has approved the following:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 87, *Leases*

Statement No. 90, *Majority Equity Interest-an Amendment to GASB Statements No. 14 and No. 61*

Statement No. 91, *Conduit Debt Obligations*

Statement No. 92, *Omnibus 2020*

Statement No. 93, *Replacement of Interbank Offered Rates*

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Statement No. 96, *Subscription-Based Information Technology Arrangements*

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, an Amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32* (portions of GASB Statement No. 97 were implemented in 2020, see Note 1).

## County of Luzerne, Pennsylvania

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Notes to Financial Statements

December 31, 2020

The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the exception of Statement No. 87, which was postponed by 18 months, following the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*.

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. When they become effective, application of these standards may restate portions of these financial statements.

### **20. Subsequent Event**

The federal government passed the American Rescue Plan Act on March 11, 2021 to respond to the COVID-19 public health emergency and its negative economic impacts. Amounts were appropriate for fiscal year 2021 to units of local government to mitigate the financial effects stemming from the public health emergency. The County's estimated award is approximately \$112,890,000, which will be used to combat the negative effects of the public health emergency in the local economy. The County received 50 percent of the funds in May 2021, with the remaining expected to be received during 2022. The funds are available to cover costs incurred before December 31, 2024.

## County of Luzerne, Pennsylvania

Required Supplementary Information

Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund

Budget and Actual

Year Ended December 31, 2020

(Unaudited)

	<b>General Fund</b>		
	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Taxes	\$ 123,174,500	\$ 123,758,697	\$ 584,197
Payments in-lieu of taxes	201,600	264,390	62,790
Intergovernmental	1,791,857	3,882,947	2,091,090
Charges for services	3,776,800	3,403,676	(373,124)
Licenses and permits	3,460,710	3,340,451	(120,259)
Fines and forfeits	1,570,000	1,045,679	(524,321)
Interest and rent	1,182,678	1,217,345	34,667
Contributions and other	503,000	2,590,742	2,087,742
	<u>135,661,145</u>	<u>139,503,927</u>	<u>3,842,782</u>
<b>Expenditures</b>			
General government:			
Administration	9,691,356	9,269,241	422,115
Judicial	34,389,544	32,899,102	1,490,442
Corrections	37,254,222	35,263,309	1,990,913
Other	6,943,557	7,916,051	(972,494)
Public safety	954,870	892,057	62,813
Public works	4,690,681	4,496,155	194,526
Health and human services	-	157,874	(157,874)
Intergovernmental appropriations	8,225,358	8,225,851	(493)
Capital outlay	-	7,225,915	(7,225,915)
	<u>102,149,588</u>	<u>106,345,555</u>	<u>(4,195,967)</u>
Excess of revenues over expenditures	<u>33,511,557</u>	<u>33,158,372</u>	<u>(353,185)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of assets	-	16,255	16,255
Transfers in:			
Operations	1,925,014	1,325,287	(599,727)
CARES Act funding	-	5,515,068	5,515,068
Transfers out:			
Debt Service Fund	(24,539,962)	(24,623,889)	(83,927)
Capital projects, 911	-	(19,700,000)	(19,700,000)
Other agencies, operating subsidy	(10,896,609)	(13,114,100)	(2,217,491)
	<u>(33,511,557)</u>	<u>(50,581,379)</u>	<u>(17,069,822)</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ (17,423,007)</u>	<u>\$ (17,423,007)</u>

## County of Luzerne, Pennsylvania

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)

Year Ended December 31, 2020

<u>Measurement Date</u>	<u>County's Proportionate Share as a Percentage of Net Pension Liability</u>	<u>County's Proportionate Share</u>	<u>County's Covered Payroll</u>	<u>County's Proportionate Share as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</u>
December 31, 2020	98.47%	\$ 80,098,889	\$ 72,623,089	110.29%	78.00%
December 31, 2019	98.48%	102,777,470	71,294,691	144.16%	71.60%
December 31, 2018	98.36%	119,631,257	70,555,278	169.56%	63.80%
December 31, 2017	97.77%	83,473,735	65,973,098	126.53%	74.10%
December 31, 2016	97.46%	92,602,974	64,734,794	143.05%	69.60%
December 31, 2015	97.66%	86,435,923	61,827,015	139.80%	70.80%

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

## County of Luzerne, Pennsylvania

Required Supplementary Information  
 Schedule of Employer Contributions (Unaudited)  
 Year Ended December 31, 2020

<u>Measurement Year Ended</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
December 31, 2015	\$ 9,957,520	\$ 2,283,875	\$ 7,673,645	\$ 61,827,015	3.69%
December 31, 2016	11,006,212	2,464,188	8,542,024	64,734,794	3.81%
December 31, 2017	11,794,593	11,794,593	-	65,973,098	17.88%
December 31, 2018	12,723,313	10,000,145	2,723,168	70,555,278	14.17%
December 31, 2019	13,330,000	13,330,000	-	71,294,691	18.70%
December 31, 2020	13,748,500	13,748,500	-	72,623,089	18.93%

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

### Notes to Schedule:

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

**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 valuation was 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 percent and decreased to 7.00 percent in the actuarial valuation as of December 31, 2017 to reflect current expectations of the Plan's long-term investment performance.

### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	Over a closed 18 year period, beginning in 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	2.75% for 2020, 3.00% prior
Salary increases	7.25% for the first ten-years of service, then 3% during 2020, previously 3.00% plus service based incentives
Investment rate of return	7.00%, net of investment expense and including inflation
Mortality	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 the Net OPEB Liability and Related Ratios (Unaudited)  
 Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 391,358	\$ 379,959	\$ 368,892	\$ 358,148
Interest cost	246,709	293,895	263,969	254,922
Changes in assumptions	752,712	774,948	(302,631)	-
Difference between expected and actual experience	(257,158)	-	-	-
Benefit payments, including refunds of member contributions	<u>(384,413)</u>	<u>(435,540)</u>	<u>(354,561)</u>	<u>(346,441)</u>
Net change in total OPEB liability	749,208	1,013,262	(24,331)	266,629
<b>Total OPEB Liability, Beginning</b>	<u>8,770,780</u>	<u>7,757,518</u>	<u>7,781,849</u>	<u>7,515,220</u>
<b>Total OPEB Liability, Ending (a)</b>	<u>9,519,988</u>	<u>8,770,780</u>	<u>7,757,518</u>	<u>7,781,849</u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	384,413	435,540	354,561	346,441
Benefit payments	<u>(384,413)</u>	<u>(435,540)</u>	<u>(354,561)</u>	<u>(346,441)</u>
Net change in plan fiduciary net position	-	-	-	-
<b>Plan Fiduciary Net Position, Beginning</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Plan Fiduciary Net Position, Ending (b)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net OPEB Liability, Ending (a) - (b)</b>	<u>\$ 9,519,988</u>	<u>\$ 8,770,780</u>	<u>\$ 7,757,518</u>	<u>\$ 7,781,849</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>Covered-Employee Payroll</b>	<u>\$ 21,311,915</u>	<u>\$ 17,569,290</u>	<u>\$ 20,346,643</u>	<u>\$ 17,587,855</u>
<b>Net OPEB liability as a Percentage of Covered-Employee Payroll</b>	<u>44.67%</u>	<u>49.92%</u>	<u>38.13%</u>	<u>44.25%</u>

The County adopted the provisions of Governmental Accounting Standards Board Statement No 75, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 45*, for the year ended December 31, 2018 to conform with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2017 is not available for reporting.

**County of Luzerne, Pennsylvania**

Required Supplementary Information  
 Schedule of Employer OPEB Plan Contributions (Unaudited)  
 Years Ended December 31,

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 477,602	\$ 496,707	\$ 790,504	\$ 790,504	\$ 765,317	\$ 755,558	\$ 778,225	\$ 801,571	\$ 776,250
Contributions in relation to the actuarially determined contribution	<u>196,198</u>	<u>207,683</u>	<u>200,854</u>	<u>315,335</u>	<u>317,533</u>	<u>346,441</u>	<u>354,561</u>	<u>435,540</u>	<u>384,413</u>
Contribution deficiency (excess)	<u>\$ 281,404</u>	<u>\$ 289,024</u>	<u>\$ 589,650</u>	<u>\$ 475,169</u>	<u>\$ 447,784</u>	<u>\$ 409,117</u>	<u>\$ 423,664</u>	<u>\$ 366,031</u>	<u>\$ 391,837</u>
Covered-employee payroll	\$ 15,953,734		\$ 17,918,499		\$ 18,624,205	\$ 17,587,855	\$ 20,346,643	\$ 17,569,290	\$ 21,311,915
Contributions as a percentage of covered-employee payroll	1.23%		1.12%		1.70%	1.97%	1.74%	2.48%	1.80%

**Notes to Schedule:**

Valuation date: Actuarially determined contributions are calculated as of December 31 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Not applicable
Inflation	3.00%
Salary increases	3.00% plus service based incentives
Investment rate of return	3.50%, net of investment expense and including inflation
Healthcare trend	6.00% initially, grading down to 4.25% ultimate
Retirement age	Normal
Mortality	RP-2000 for Males and Females with Blue Collar adjustments, projected generationally with scale BB.

The County adopted the provisions of Governmental Accounting Standards Board Statement No 75, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 45, for the year ended December 31, 2018 to conform with accounting principles generally accepted in the United States of America. Therefore, complete information for years prior to 2017 is not available for reporting, the County is reporting all available information under the then current standard.