



County of Lackawanna, Pennsylvania

Financial Statements and
Supplementary Information

December 31, 2018

County of Lackawanna, Pennsylvania

Table of Contents
December 31, 2018

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet - Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position - Proprietary Fund	20
Statement of Revenues, Expenses and Change in Net Position - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22
Statement of Fiduciary Net Position	23
Statement of Change in Fiduciary Net Position	24
Combining Balance Sheet - Discretely Presented Component Units	25
Combining Statement of Revenues, Expenses and Change in Net Position - Discretely Presented Component Units	26
Notes to Financial Statements	27
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balances - General and Debt Service Funds Budget and Actual - Unaudited	60
Schedule of Changes in Net Pension Liability and Related Ratios - Unaudited	61
Schedule of Employer Contributions - Unaudited	62

Independent Auditors' Report

To the Commissioners of Lackawanna County
Scranton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania (the "County"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lackawanna County Department of Human Services Office of Youth and Family Services (a department of the General Fund), which represents 14.7 percent of the revenues of the General Fund and 9.1 percent of the revenues of the Governmental Activities. We did not audit the Lackawanna County Area Agency on Aging and Child Care Information Services of Lackawanna County (departments of the Health and Human Services Fund) and the Lackawanna County Commission on Drug and Alcohol Abuse (a blended component unit of the Health and Human Services Fund), which collectively represent 90.3 percent, 84.8 percent, and 58.0 percent, respectively, of the assets, fund balance, and revenues of the Health and Human Services Fund and 0.5 percent, 0.7 percent, and 10.1 percent, respectively, of the assets, net position, and revenues of the Governmental Activities. We did not audit the financial statements of the Pension Trust Fund which represents 96.7 percent, 100 percent and 100 percent of the assets, net position, and revenues, respectively, of the Fiduciary Fund. Finally, we did not audit the Scranton Lackawanna Health and Welfare Authority, the Lackawanna County Library System, the Redevelopment Authority of the County of Lackawanna, the Lackawanna County River Basin Sewer Authority, the Lackawanna County Transit System Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority which represent 100 percent of the assets, net position and revenues of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Lackawanna County Department of Human Services Office of Youth and Family Services, Lackawanna County Area Agency on Aging, Child Care Information Services of Lackawanna County, Lackawanna County Commission on Drug and Alcohol Abuse, Pension Trust Fund, Scranton Lackawanna Health and Welfare Authority, Lackawanna County Library System, Redevelopment Authority of the County of Lackawanna, Lackawanna County River Basin Sewer Authority, Lackawanna County Transit System Authority, Multi-purpose Stadium Authority of Lackawanna County and Lackawanna County Performing Arts Center Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Scranton Lackawanna Health and Welfare Authority, the Multi-purpose Stadium Authority of Lackawanna County and the Lackawanna County Performing Arts Center Authority, reported as discretely presented component units, and the Pension Trust Fund, reported as a blended fiduciary fund, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lackawanna, Pennsylvania, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4 through 13, the budgetary comparison information on page 60, the schedule of changes in net pension liability and related ratios on page 61, and the schedule of employer contributions on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated September 27, 2019 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
September 27, 2019

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

This Management's Discussion and Analysis ("MD&A") is intended to provide a narrative overview and analysis of the financial activities of the County of Lackawanna, Pennsylvania (the "County") for the year ended December 31, 2018 compared to the year ended December 31, 2017. The County's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. The discussion focuses on the County which is considered the primary government. Component units, unless otherwise noted, are not included in this discussion.

Financial Highlights

Overall, the County's liabilities exceed its assets by \$100,127,391 at December 31, 2018.

General Fund revenues exceeded expenditures in 2018 by \$2,076,269. This increased the General Fund balance from \$25,519,373 at December 31, 2017 to a fund balance of \$27,595,642 at December 31, 2018. The \$2,076,269 increase in fund balance includes an expenditure that resulted from a 2017 settlement of litigation related to the Multi-Purpose Stadium Authority's sale of its AAA baseball franchise during 2012. The settlement called for three payments of \$500,000 each in 2018, 2019, and 2020.

2018 marked the fifth consecutive year that the County did not have a need to increase the tax burden on the County's constituents. The Commissioners were able to present a 2019 County Budget without any real estate tax increase.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Governmental Funds

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

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the County's major funds, which are the General Fund, Health and Human Services Fund, Debt Service Fund, and the Capital Projects Fund. All of the governmental funds that are not considered individually significant have been aggregated and are collectively reported under the caption "Non-Major".

The County adopts an annual budget according to Pennsylvania Law and the Lackawanna County Home Rule Charter for its General and Debt Service Funds. A budgetary comparison statement has been provided to demonstrate compliance with these budgets on page 60.

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

Fiduciary Funds

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-59 of this report.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

Governmental Activities Condensed Statement of Net Position (Deficit) December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 73,193,059	\$ 71,649,442
Capital assets, net	135,689,618	122,447,033
Total assets	208,882,677	194,096,475
Deferred outflows of resources - pension	6,866,649	10,119,217
Total	215,749,326	204,215,692
Liabilities, Deferred Inflows of Resources		
Current liabilities	31,614,100	30,179,452
Long-term and other liabilities	274,023,157	272,012,310
Total liabilities	305,637,257	302,191,762
Deferred inflows of resources	9,687,319	1,792,632
Net Position (Deficit)		
Net investment in capital assets	(63,856,971)	(68,881,022)
Restricted	4,260,958	3,847,035
Unrestricted	(40,531,378)	(34,734,715)
Total net deficit	<u>\$ (100,127,391)</u>	<u>\$ (99,768,702)</u>

Total assets and deferred outflows of resources of the Lackawanna County primary government increased by \$11,533,634 from 2017 to 2018 from \$204,215,692 to \$215,749,326.

The most notable changes in the County's "Governmental Activities Condensed Statement of Net Position (Deficit)" include an increase in the County's Capital assets, net amounting to \$13,242,585. This increase is a result of an increase in the County's Construction-in-Progress of \$17,279,962, net of 2018 depreciation. The Construction-in-Progress includes funds expended for the purchase and improvements of the County's new Government Center, as well as the purchase of a building adjacent to the County Prison that will be renovated and ultimately utilized by the County Court system.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

Condensed Statement of Governmental Activities Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Governmental Activities		
Program Revenues:		
Charges for services	\$ 32,459,007	\$ 34,049,074
Operating grants and contributions	58,736,238	56,797,267
Capital grants and contributions	2,515,257	4,433,403
General Revenues:		
Tax levy for general and debt purposes, net	80,560,944	80,095,547
Change in fair value of investment derivative	841,218	612,177
Contributions and other, net	(42,915)	(1,561,538)
Total revenues	<u>175,069,749</u>	<u>174,425,930</u>
Expenses:		
General government - administrative	28,758,606	29,834,994
General government - judicial	26,980,733	25,365,801
Corrections	41,683,770	39,458,220
Public works and enterprises	1,928,103	3,871,326
Human services	47,512,942	50,961,777
Culture and recreation	7,199,446	6,495,463
Conservation and development	5,707,208	3,865,387
Depreciation	5,768,104	5,725,549
Interest-long-term debt	9,889,526	13,188,158
Total expenses	<u>175,428,438</u>	<u>178,766,675</u>
Changes in net deficit	(358,689)	(4,340,745)
Net deficit, beginning	<u>(99,768,702)</u>	<u>(95,427,957)</u>
Net deficit, ending	<u><u>\$ (100,127,391)</u></u>	<u><u>\$ (99,768,702)</u></u>

The County's net deficit, ending, reflected in the "Condensed Statement of Governmental Activities" increased by \$358,689 between December 31, 2017 and December 31, 2018. This net increase in net deficit, ending, was a result of expenditures exceeding revenues by \$358,689. In 2018, while revenues increased by \$643,819, mostly from increases in Operating grants and contributions, predominately in the Office of Youth and Family Services, expenses decreased by \$3,338,237 predominately because of the \$5.5 million expenditure during 2017 related to the settlement of the litigation stemming from the Multi-Purpose Stadium Authority's 2012 sale of its AAA baseball franchise. This reduction in expenditures was offset, somewhat, by contractual increases in salary and benefits from contracts negotiated and arbitrated during 2017 and 2018.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

Financial Analysis of the Funds General Fund (Major Fund)

The following represents a summary of General Fund revenue, by source, along with changes from 2017.

	<u>2018 Amount</u>	<u>2017 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
Taxes	\$ 63,278,013	\$ 63,274,817	\$ 3,196	0.01	%
Intergovernmental	20,423,271	17,107,297	3,315,974	19.38	
Charges for service	22,945,927	24,086,988	(1,141,061)	(4.74)	
Other	1,037,520	1,392,800	(355,280)	(25.51)	
Transfers in	-	591,494	(591,494)	(100.00)	
Total revenue	<u>\$ 107,684,731</u>	<u>\$ 106,453,396</u>	<u>\$ 1,231,335</u>	<u>1.16</u>	<u>%</u>

Total revenue in the General Fund increased by \$1,231,335 or approximately 1.16 percent from 2017 to 2018.

The increase in revenue between 2017 and 2018 is principally due to the increase in Intergovernmental revenues. This increase is predominately due to increased reimbursements from the State for services provided by the Office of Youth and Family Services. In addition, additional revenue of approximately \$1.4 million was realized in 2018 compared to 2017, from a renegotiation of the rates paid by the U.S. Marshall's service for hosting their prisoners in the County Prison.

The following represents a summary of General Fund expenditures, by function, along with changes from 2017.

	<u>2018 Amount</u>	<u>2017 Amount</u>	<u>Increase (Decrease)</u>	<u>% Change</u>	
General government - administrative	\$ 20,810,450	\$ 24,578,163	\$ (3,767,713)	(15.33)	%
General government - judicial	23,822,417	22,443,859	1,378,558	6.14	
Public safety - corrections	37,266,744	34,702,637	2,564,107	7.39	
Public works	237,363	126,906	110,457	87.04	
Health and human services	17,192,658	16,103,013	1,089,645	6.77	
Culture and recreation	2,336,872	2,626,878	(290,006)	(11.04)	
Community and economic development	806,174	788,728	17,446	2.21	
Miscellaneous	680,145	715,531	(35,386)	(4.95)	
Transfers	2,455,639	3,790,725	(1,335,086)	(35.22)	
Total expenses	<u>\$ 105,608,462</u>	<u>\$ 105,876,440</u>	<u>\$ (267,978)</u>	<u>(0.25)</u>	<u>%</u>

Total expenses in the General Fund decreased by \$267,978 or approximately 0.25 percent from 2017 to 2018.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2018

Expenses within the General Government – Administrative category decreased by \$3,767,713 principally because there was a \$5,500,000 expenditure in 2017 related to the settlement of litigation related to the Multi-Purpose Stadium Authority's 2012 sale of its AAA baseball franchise, and in 2018 the expenditure related to the settlement only amounted to \$500,000. Though there was a large decrease in General Government – Administrative expenses that decrease was offset by increases in General Government – Judicial, \$1,378,558, Public Safety – Corrections, \$2,564,107, and Health and Human Services, \$1,089,645.

The increase in General Government – Judicial is mostly a result of contractually obligated salary and wage increases along with an increase of approximately 12% in the cost of employee health insurance.

The increase in Public Safety – Corrections is the result of contractually obligated increases in salaries and wages, the 12% increase in the cost of employee health insurance and an increase of approximately \$280,000, in the cost of providing medical care to the inmates at the County Prison.

The increase in Health and Human Services is the result of the cost of providing additional services, which caused the increase in reimbursements referred to above.

The following represents a summary of budgeted vs. actual General Fund revenue, by source along with variances for 2018:

	2018 Budget	2018 Actual	Favorable (Unfavorable)	% Change	
Taxes	\$ 63,611,968	\$ 63,278,013	\$ (333,955)	(0.53)	%
Intergovernmental	19,200,392	20,423,271	1,222,879	5.99	
Charges for service	18,922,373	22,945,927	4,023,554	17.53	
Other	697,497	1,037,520	340,023	32.77	
Gain on sale of asset	1,300,000	-	(1,300,000)	0.00	
Total revenue	<u>\$ 103,732,230</u>	<u>\$ 107,684,731</u>	<u>\$ 3,952,501</u>	<u>3.67</u>	<u>%</u>

Overall, the County's General Fund revenue exceeded its budget by \$3,952,501. Compared to the 2018 budget, Intergovernmental revenue was more than expected because the County's Office of Youth and Family Services generated additional revenue as a result of reimbursable expenses for services being in excess of amounts budgeted. Charges for service reflects an increase of \$4,023,554 compared to the County Budget for this category. The principal contributing factors for this variance are the reimbursements from the U. S. Marshall's for housing prisoners. While the County budgeted conservatively based on the increase in the reimbursement rate, negotiated in 2017, the Marshall Service increased the number of inmates housed at the County Prison and that increase along with the enhanced rate caused the actual results to exceed the 2018 Budget by approximately \$1.3 million. In addition, while the 2018 Budget anticipated an increase in Prison phone revenue, based on the new contract that went into effect in 2017, we budgeted conservatively based on guaranteed minimum revenue in the contract, and actual revenues exceeded the guaranteed amounts each month during 2018.

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2018

The following represents a summary of budgeted vs. actual General Fund expenditures, by function, along with variances for 2018:

	<u>2018 Budget</u>	<u>2018 Actual</u>	<u>Favorable (Unfavorable)</u>	<u>% Change</u>
General government - administrative	\$ 20,992,151	\$ 20,810,450	\$ 181,701	0.87 %
General government - judicial	23,844,025	23,822,417	21,608	0.09
Public safety - corrections	37,198,794	37,266,744	(67,950)	(0.18)
Public works	135,399	237,363	(101,964)	(42.96)
Health and human services	17,378,445	17,192,658	185,787	1.08
Culture and recreation	2,619,372	2,336,872	282,500	12.09
Community and economic development	465,343	806,174	(340,831)	(42.28)
Miscellaneous	787,492	680,145	107,347	15.78
Debt service	-	-	-	0.00
Transfers	<u>1,819,523</u>	<u>2,455,639</u>	<u>(636,116)</u>	<u>(25.90)</u>
Total expenses	<u>\$ 105,240,544</u>	<u>\$ 105,608,462</u>	<u>\$ (367,918)</u>	<u>(0.35) %</u>

The total expenses for 2018 were \$367,918 more than the amount budgeted for 2018.

Most expense categories had small relative variances between actual expenses and the amounts budgeted for 2018. The single notable exception is the \$636,116 negative variance in Transfers. The principal difference between budgeted and actual transfers is that we inadvertently did not include the actual transfers out for Worker's Compensation expenses totaling \$861,163 in the 2018 budget.

Health and Human Services Fund (Major Fund)

The Health and Human Services Fund accounts for revenues and expenses for the provision of social services within the County. These services include Area Agency on Aging, Day Care Services, and Medical Transportation Services.

The Health and Human Services Fund revenues and expenses decreased by \$3,285,250 and \$3,487,719, respectively, as a result of decreases in the County's Human Services Development Block Grant and changes in the program funding and operations during 2018.

The Health and Human Service Fund has a negative fund balance of \$562,764. This is an increased deficit of \$202,821 from the 2017 final ending fund balance deficit of \$359,943.

Debt Service Fund (Major Fund)

The Debt Service fund accounts for resources accumulated for the payment of long-term obligations, primarily bonds. A portion of the County real estate tax levy is used to fund the expenditures within this fund as well as transfers from other funds for which the specific debt was issued. At December 31, 2018 and 2017, the County's debt service fund balances were \$4,468,436 and \$6,964,099, respectively.

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

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

Capital Projects Fund (Major Fund)

The County Capital Projects fund balance increased from to \$2,863,674 at December 31, 2017 to \$3,434,595 at December 31, 2018. The principal increase in the County's Capital Projects Fund in 2018 was due to the loan for the County Government Building project being fully drawn down by December 31, 2018, but the project was still ongoing at that time and there would be continuing payments to contractors in 2019.

Internal Service Fund (Proprietary Fund)

The Internal Service Fund accounts for the County's self-insured workers compensation program. This program is monitored by the Commonwealth of Pennsylvania Bureau of Labor and Industry. The Bureau of Labor and Industry requires that the County maintain an irrevocable trust account for the payment of future benefits. The County's actuarially determined reserve/estimate for unpaid losses amounted to \$1,375,870 at December 31, 2018. The fund's total assets at December 31, 2018 were \$1,579,488, which is in compliance with the State's funding requirements. This reserve account indicates a deficit fund balance of \$203,618 as of December 31, 2018. This is a decrease of \$224,099 in the fund deficit of \$20,481 reported at December 31, 2017.

Pension Trust Fund

The Pension Trust Fund is a fiduciary fund and holds the assets of the County Retirement Plan. The Plan experienced an decrease in net position of \$18,670,216 during 2018 resulting in Plan net position of \$156,432,131 at December 31, 2018. Plan net position was \$175,102,347 at December 31, 2017.

Plan contributions by members amounted to \$4,779,450 and \$4,468,203 in 2018 and 2017, respectively. Benefits paid to retired members were \$11,884,852 and \$10,582,291 in 2018 and 2017, respectively.

Agency Fund

The Agency Fund accounts for assets held by the County in a custodial function for the individuals or other governments. The County held \$5,371,644 in that role as of December 31, 2018.

Capital Assets

The County's investment in capital assets at December 31, 2018 and 2017, net of accumulated depreciation, was \$135,689,618 and \$122,447,033 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, 2018 and 2017:

Capital Assets, Governmental Activities December 31, 2018

	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
County-wide:			
Land	\$ 3,533,235	\$ -	\$ 3,533,235
Infrastructure	53,286,617	32,245,201	21,041,416
Investment in airport	8,727,567	4,175,434	4,552,133
Buildings and improvements	123,377,263	45,806,695	77,570,568
Machinery and equipment	50,233,523	43,890,448	6,343,075
Construction-in-process	22,649,191	-	22,649,191
Total county-wide	<u>\$ 261,807,396</u>	<u>\$ 126,117,778</u>	<u>\$ 135,689,618</u>

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

December 31, 2017

County-wide:

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

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

Long-Term Debt

As of December 31, 2018, the County's net general obligation debt was \$220,512,087 net of related discount. Detailed information about the County's long-term debt can be found in Note 7 in the accompanying notes to the financial statements.

Economic Condition and Outlook

Due to a change in the Internal Revenue Code in 2018, Municipalities are no longer allowed to advance refund tax free municipal bonds. During 2018 the County realized that there existed a 2009 Bond issue, which at then current interest rates, would provide significant savings if those bonds were able to be advance refunded. In order to preserve those savings on the 2009 Bond issue, the County entered into a "Cash Settled Hedge" which will allow the County to refinance the 2009 Bonds, when callable in 2019, and realize future savings similar to the savings that could have been realized in 2018 had the County been allowed to advance refund the 2009 Bond issue. The County will continue to investigate refunding opportunities of its existing debt load where opportunities arise.

During 2018 the County diligently worked toward completion of its new County Government Center, contracts for which had been awarded in late 2017. Beginning in December 2018, the County began moving departments into the new Government Center, and the newly renovated building was fully occupied by March 2019.

Due to continuing austerity programs, the County was able to operate in a \$2,076,269 surplus position in 2018. At December 31, 2017 the accumulated unassigned General Fund surplus amounted to \$24,178,386 and at December 31, 2018, the unassigned General Fund surplus was \$24,685,196.

The County's 2018 and 2017 budgets included no real estate tax increases. The County did not include a real estate tax increase in its 2019 budget.

Beginning in 2013, the Commissioners developed innovative new Economic Development programs, the Community Reinvest program and the SBA Loan Fee Waiver program, with the intent of bringing new life sustaining jobs to the County and retaining jobs that already exist within the County. These programs have been successful in creating jobs to complete projects funded by the Community Reinvest program, and creating and expanding small businesses within the County through the SBA Loan Fee Waiver program. As of December 31, 2018, \$858,460 of the funds dedicated to the Commissioners' Economic Development programs remain unspent, and those funds are classified in the accompanying financial statements as "Fund Balance-Assigned".

County of Lackawanna, Pennsylvania

Management's Discussion and Analysis

(Unaudited)

December 31, 2018

During 2018 the County closed on a \$15 million borrowing. Of that borrowing, \$2,750,000 was allocated to Infrastructure. As of December 31, 2018, the Infrastructure funds included in this borrowing remain unspent. With this \$2,750,000 and other funds, distributed by the State and restricted to Infrastructure projects, as of December 31, 2018 the County has approximately \$6,000,000 dedicated to Infrastructure.

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

Requests for Information

Questions concerning any of the information contained in this report or requests for additional information should be addressed to the office of Lackawanna County Commissioners, County of Lackawanna, 123 Wyoming Avenue, Scranton, PA 18503.

County of Lackawanna, Pennsylvania

 Statement of Net Position
 December 31, 2018

	Governmental Activities	Component Units
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 29,454,790	\$ 9,710,381
Restricted cash	-	2,760,778
Investments	1,357,775	7,170,269
Restricted investments	-	1,619,963
Accounts receivable, net	7,416,723	140,421,766
Inventory	27,820	-
Due from fiduciary funds	2,830,308	-
Due from other governments, net	9,772,559	8,077,281
Due from component units	2,620,059	-
Taxes receivable, net	9,784,913	357,811
Prepaid expenses	2,247,025	876,639
Total current assets	65,511,972	170,994,888
Capital Assets, Net	135,689,618	128,502,962
Cash Held for Capital Projects	7,681,087	-
Other Noncurrent Assets	-	565,380
Total assets	208,882,677	300,063,230
Deferred Outflows of Resources - Pension	6,866,649	539,433
Total assets and deferred outflows of resources	<u>\$ 215,749,326</u>	<u>\$ 300,602,663</u>
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)		
Current Liabilities		
Accounts payable	\$ 11,581,593	\$ 1,103,319
Accrued expenses	7,176,636	1,006,416
Current portion:		
Bond and notes payable	10,542,247	2,764,025
Compensated absences	227,168	539,129
Due to primary government	-	3,487,425
Unearned revenues	710,586	3,094,456
Escrow liability	-	9,582,757
Claims payable	1,375,870	-
Other liabilities	-	8,796
Total current liabilities	31,614,100	21,586,323
Noncurrent Liabilities		
Bonds and notes payable, net	209,969,840	36,031,121
Nonrecourse debt issues	-	137,118,088
Net pension liability, net	55,536,964	2,181,623
Investment derivatives	5,674,967	337,550
Compensated absences	2,841,386	835,708
Total liabilities	<u>305,637,257</u>	<u>198,090,413</u>
Deferred Inflows of Resources		
Pension	9,409,625	-
Unearned contribution revenue	829,835	-
Deferred tax revenues	-	357,811
Deferred service concession arrangement receipts	-	550,000
Total deferred inflows of resources	<u>10,239,460</u>	<u>907,811</u>
Net Position (Deficit)		
Net investment in capital assets	(63,856,971)	87,575,909
Restricted	4,260,958	692,002
Unrestricted	<u>(40,531,378)</u>	<u>13,336,528</u>
Total net position (deficit)	<u>(100,127,391)</u>	<u>101,604,439</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 215,749,326</u>	<u>\$ 300,602,663</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Activities
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary Government						
Governmental activities:						
General government - administrative	\$ (28,758,606)	\$ 8,052,533	\$ 256,345	\$ -	\$ (20,449,728)	
General government - judicial	(26,980,733)	5,484,165	1,986,783	-	(19,509,785)	
Public safety - corrections	(41,683,770)	14,168,393	1,828,566	-	(25,686,811)	
Public works and enterprises	(1,928,103)	10,862	2,773,261	-	856,020	
Health and human services	(47,512,942)	141,164	47,210,542	-	(161,236)	
Culture and recreation	(7,199,446)	4,090,735	-	-	(3,108,711)	
Community and economic development	(5,707,208)	511,155	4,680,741	2,515,257	1,999,945	
Unallocated depreciation	(5,768,104)	-	-	-	(5,768,104)	
Interest on long-term debt	(9,889,526)	-	-	-	(9,889,526)	
Total governmental activities	<u>\$ (175,428,438)</u>	<u>\$ 32,459,007</u>	<u>\$ 58,736,238</u>	<u>\$ 2,515,257</u>	<u>(81,717,936)</u>	
Component Units						
Scranton Lackawanna Health and Welfare Authority	\$ (16,953,474)	\$ 50,231	\$ -	\$ -	\$ (16,903,243)	
Lackawanna County Library System	(5,486,549)	65,000	968,742	-	(4,452,807)	
Redevelopment Authority of Lackawanna County	(73,720)	-	-	-	(73,720)	
Lackawanna River Basin Sewer Authority	(9,133,230)	8,718,465	-	-	(414,765)	
County of Lackawanna Transit System Authority	(14,599,457)	1,139,212	10,221,485	2,447,225	(791,535)	
Multi-Purpose Stadium Authority of Lackawanna County	(2,449,907)	-	1,543,986	-	(905,921)	
Lackawanna County Performing Arts Center Authority	(536,687)	705,747	-	-	169,060	
County of Lackawanna Land Bank	(30,592)	45,652	-	-	15,060	
Total component units	<u>\$ (49,263,616)</u>	<u>\$ 10,724,307</u>	<u>\$ 12,734,213</u>	<u>\$ 2,447,225</u>	<u>\$ (23,357,871)</u>	
General Revenues (Expenses)						
					80,560,944	\$ 4,316,024
					-	12,727,875
					557,528	531,900
					290,592	5,770,794
					(946,150)	-
					841,218	-
					55,115	-
					<u>81,359,247</u>	<u>23,346,593</u>
					(358,689)	(11,278)
					<u>(99,768,702)</u>	<u>101,615,717</u>
					<u>\$ (100,127,391)</u>	<u>\$ 101,604,439</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Balance Sheet
 Governmental Funds
 December 31, 2018

	Major Funds					Total
	General Fund	Health and Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Assets						
Cash and cash equivalents	\$ 20,695,564	\$ 825,077	\$ 2,212,179	\$ 7,681,087	\$ 5,721,970	\$ 37,135,877
Due from other funds	7,205,332	192,843	-	-	54,092	7,452,267
Due from component units	1,188,970	-	-	-	-	1,188,970
Other receivables	5,235,582	-	528,324	-	1,652,817	7,416,723
Due from other governments, net	5,085,594	723,916	2,148,455	150,000	1,664,594	9,772,559
Inventory	27,820	-	-	-	-	27,820
Prepaid expenses	2,024,166	-	-	-	1,146	2,025,312
Taxes receivable, net	9,784,913	-	-	-	-	9,784,913
Total	\$ 51,247,941	\$ 1,741,836	\$ 4,888,958	\$ 7,831,087	\$ 9,094,619	\$ 74,804,441
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 6,883,104	\$ 1,015,092	\$ 78,523	\$ 2,302,924	\$ 1,301,950	\$ 11,581,593
Accrued liabilities	3,782,736	50,250	-	-	85,251	3,918,237
Accrued pension	3,577,528	-	-	-	-	3,577,528
Due to other funds	185,768	409,423	341,999	2,106,023	1,578,745	4,621,958
Unearned revenue	-	-	-	-	710,586	710,586
Total liabilities	14,429,136	1,474,765	420,522	4,408,947	3,676,532	24,409,902
Deferred Inflows of Resources						
Deferred tax revenue	9,223,163	-	-	-	-	9,223,163
Unearned contribution revenue	-	829,835	-	-	-	829,835
Total deferred inflows of resources	9,223,163	829,835	-	-	-	10,052,998
Fund Balances (Deficit)						
Non-spendable	2,051,986	-	-	-	1,146	2,053,132
Restricted	-	116,050	4,468,436	3,422,140	4,144,908	12,151,534
Assigned	858,460	-	-	-	1,272,033	2,130,493
Unassigned	24,685,196	(678,814)	-	-	-	24,006,382
Total fund balances	27,595,642	(562,764)	4,468,436	3,422,140	5,418,087	40,341,541
Total	\$ 51,247,941	\$ 1,741,836	\$ 4,888,958	\$ 7,831,087	\$ 9,094,619	\$ 74,804,441

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2018

Total Fund Balances - Governmental Funds			\$ 40,341,541	
Amounts reported for governmental activities in the statement of net position are different because:				
Net position of the Internal Service Fund is included in governmental activities since it primarily benefits the County's governmental activities.				203,618
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				135,689,618
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unearned revenue in the funds.				9,223,163
Due from component units, consist of bonds and notes payable issued by the County and loaned to component units, are not due in the current period and therefore are not reported as receivables within the funds.				1,431,088
Deferred outflows of resources related to the net pension liability is included in the statement of net position.				6,866,649
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	220,512,087		
	Net pension liability, net of current	51,959,436		
	Compensated absences	<u>3,068,554</u>		
			(275,540,077)	
Deferred inflows of resources related to the net pension liability is included in the statement of net position.				(9,409,625)
The fair value of derivative instruments used in governmental activities are not financial resources and therefore are not reported in the governmental funds.				(5,674,967)
Accrued litigation claims (included in accrued expenses).				(1,050,000)
Accrued interest payable is included in the statement of net position (included in accrued expenses).				<u>(2,208,399)</u>
Total Deficit - Governmental Activities			<u><u>\$ (100,127,391)</u></u>	

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenditures, and Change in Fund Balances - Governmental Funds
 Year Ended December 31, 2018

	Major Funds					Total Governmental Funds
	General Fund	Health and Human Services Funds	Debt Service Fund	Capital Projects Fund	Non-Major Funds	
Revenues						
Taxes	\$ 62,987,421	\$ -	\$ 16,073,476	\$ -	\$ 1,366,843	\$ 80,427,740
Payments in lieu of taxes	290,592	-	-	-	-	290,592
Intergovernmental	20,423,271	30,546,704	-	2,515,257	7,595,449	61,080,681
Charges for service	22,945,927	65,615	1,062,629	19,645	9,089,313	33,183,129
Court costs, fines and forfeitures	9,720	-	-	-	-	9,720
Interest and rent	464,030	14,796	108,445	2,073	9,457	598,801
Contributions and other	563,770	25	-	-	64,432	628,227
	<u>107,684,731</u>	<u>30,627,140</u>	<u>17,244,550</u>	<u>2,536,975</u>	<u>18,125,494</u>	<u>176,218,890</u>
Total revenues						
Expenditures						
Current:						
General government - administrative	20,810,450	898,178	24,500	-	-	21,733,128
General government - judicial	23,822,417	-	-	-	3,274,234	27,096,651
Public safety and corrections	37,266,744	-	-	-	4,567,402	41,834,146
Public works and enterprises	237,363	-	-	-	1,275,129	1,512,492
Health and human services	17,192,658	29,931,783	-	-	-	47,124,441
Culture and recreation	2,336,872	-	-	-	4,894,199	7,231,071
Community and economic development	806,174	-	-	-	4,621,964	5,428,138
Miscellaneous expenses	680,145	-	-	-	-	680,145
Debt service:						
Principal	-	-	9,876,747	-	-	9,876,747
Interest	-	-	9,838,966	-	-	9,838,966
Long-term debt issuance costs	-	-	-	106,519	-	106,519
Capital outlay	-	-	-	19,076,870	-	19,076,870
	<u>103,152,823</u>	<u>30,829,961</u>	<u>19,740,213</u>	<u>19,183,389</u>	<u>18,632,928</u>	<u>191,539,314</u>
Total expenditures						
Excess (Deficiency) of Revenues Over Expenditures	<u>4,531,908</u>	<u>(202,821)</u>	<u>(2,495,663)</u>	<u>(16,646,414)</u>	<u>(507,434)</u>	<u>(15,320,424)</u>
Other Financing Sources (Uses)						
Proceeds from issuance of long-term debt	-	-	-	17,038,735	-	17,038,735
Proceeds from sale of assets	-	-	-	55,115	-	55,115
Transfers in	-	-	-	111,030	1,483,446	1,594,476
Transfers out	(2,455,639)	-	-	-	-	(2,455,639)
	<u>(2,455,639)</u>	<u>-</u>	<u>-</u>	<u>17,204,880</u>	<u>1,483,446</u>	<u>16,232,687</u>
Total other financing sources (uses)						
Net change in fund balances	2,076,269	(202,821)	(2,495,663)	558,466	976,012	912,263
Fund Balances, Beginning	<u>25,519,373</u>	<u>(359,943)</u>	<u>6,964,099</u>	<u>2,863,674</u>	<u>4,442,075</u>	<u>39,429,278</u>
Fund Balances, Ending	<u>\$ 27,595,642</u>	<u>\$ (562,764)</u>	<u>\$ 4,468,436</u>	<u>\$ 3,422,140</u>	<u>\$ 5,418,087</u>	<u>\$ 40,341,541</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Reconciliation of the Statement of Revenues, Expenditures and
Change in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 912,263
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.	224,099
Capital outlay expenditures are capitalized in the statement of activities.	19,010,689
Depreciation expense on capital assets is reported in the statement of activities.	(5,768,104)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in revenue accrued between the prior and current year.	133,204
Revenues received in the current year related to long-term receivables is recognized within the statement of revenues, expenditures and changes in fund balance, but was previously recognized as revenue in the statement of activities.	(2,143,914)
Proceeds from the issuance of bonds payable are considered current financial resources and are reported in the funds as revenue, but not the statement of activities.	(17,038,735)
Repayment of bonds payable and capital lease obligations uses current financial resources and are reported in the funds as expenditures, but not the statement of activities.	9,876,747
Amortization of premiums and deferred refunding charges.	(70,354)
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.	841,218
In the statement of activities, certain operating expenses - pension, are measured by the amounts contributed towards future retirement during the current year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the change in the net pension liability, deferred outflows of resources, and deferred inflows of resources during the current period.	(7,662,339)
Change in accrued litigation claims	840,000
Change in accrued interest on bonds payable.	126,313
Change in compensated absences.	360,224
Change in Net Position of Governmental Activities	<u>\$ (358,689)</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Net Position - Proprietary Fund

December 31, 2018

	<u>Internal Service Fund</u>
Assets	
Current Assets	
Investments	\$ 1,357,775
Prepaid expenses	<u>221,713</u>
Total	<u>\$ 1,579,488</u>
Liabilities and Net Position	
Current Liabilities	
Claims payable	\$ 1,375,870
Net Position	
Unrestricted	<u>203,618</u>
Total	<u>\$ 1,579,488</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Revenues, Expenses, and Change in Net Position - Proprietary Fund
Year Ended December 31, 2018

	Internal Service Fund
Operating Expenses	
Workers' compensation claims	\$ 541,139
Administrative	61,163
	<hr/>
Total operating expenses	602,302
	<hr/>
Operating loss	(602,302)
	<hr/>
Nonoperating Revenues (Expenses)	
Unrealized loss on investments	(61,406)
Interest income	26,644
Transfer in	861,163
	<hr/>
Total nonoperating revenues, net	826,401
	<hr/>
Net income	224,099
	<hr/>
Net Deficit, Beginning	(20,481)
	<hr/>
Net Position, Ending	\$ 203,618
	<hr/> <hr/>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Cash Flows - Proprietary Fund

December 31, 2018

	Internal Service Fund
Cash Flows from Operating Activities	
Cash payments for goods and services	\$ (118,563)
Cash payments for insurance claims	(742,600)
	<u>(861,163)</u>
Net cash used in operating activities	<u>(861,163)</u>
Cash Flows Provided by Non-Capital Financing	
Transfers in from General Fund	<u>861,163</u>
Cash Flows from Investing Activities	
Purchases of investments	34,762
Interest income	26,644
Unrealized loss on investments	(61,406)
	<u>-</u>
Net cash used in investing activities	<u>-</u>
Net change in cash	-
Cash, Beginning	<u>-</u>
Cash, Ending	<u><u>\$ -</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (602,302)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Prepaid expenses	(57,400)
Claims payable	(201,461)
	<u>(258,861)</u>
Net cash used in operating activities	<u><u>\$ (861,163)</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Fiduciary Net Position

December 31, 2018

	Pension Trust Fund	Agency Fund	Total
Assets			
Cash and cash equivalents	\$ 877,159	\$ 5,371,644	\$ 6,248,803
Accrued interest	818,311	-	818,311
Investments, at fair value:			
Federated money market funds	2,680,308	-	2,680,308
Certificates of deposit	7,800,226	-	7,800,226
U.S. government obligations	27,578,007	-	27,578,007
Tax exempt bonds	-	-	-
Corporate bonds	26,560,863	-	26,560,863
Common stocks	75,217,297	-	75,217,297
Mutual funds	14,903,917	-	14,903,917
Total investments	154,740,618	-	154,740,618
Total assets	<u>\$ 156,436,088</u>	<u>\$ 5,371,644</u>	<u>\$ 161,807,732</u>
Liabilities and Net Position			
Liabilities			
Accrued fees	\$ 3,957	\$ -	\$ 3,957
Escrow liabilities	-	2,582,240	2,582,240
Due to other funds	-	2,789,404	2,789,404
Total liabilities	3,957	<u>\$ 5,371,644</u>	5,375,601
Net Position			
Restricted for pensions	156,432,131		156,432,131
Total liabilities and net position	<u>\$ 156,436,088</u>		<u>\$ 161,807,732</u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Statement of Change in Fiduciary Net Position
Year Ended December 31, 2018

	Pension Trust Fund
Additions	
Contributions:	
Plan members	<u>\$ 4,779,450</u>
Investment Income	
Net depreciation in fair value of investments	(13,265,742)
Interest	1,800,548
Dividends	1,954,723
Investment expense	<u>(51,262)</u>
Net investment income	<u>(9,561,733)</u>
Total additions	<u>(4,782,283)</u>
Deductions	
Benefits paid	11,884,852
Participant contributions refunded	1,278,200
Death benefits paid	242,129
Administrative expenses	<u>482,752</u>
Total deductions	<u>13,887,933</u>
Decrease in net position	(18,670,216)
Net Position, Beginning	<u>175,102,347</u>
Net Position, Ending	<u><u>\$ 156,432,131</u></u>

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Balance Sheet - Discretely Presented Component Units
December 31, 2018

	Scranton Lackawanna Health and Welfare Authority	Lackawanna County Library System	Redevelopment Authority of Lackawanna County	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	County of Lackawanna Land Bank	Totals
Current Assets									
Cash and cash equivalents	\$ -	\$ 149,248	\$ 62,240	\$ 4,719,809	\$ -	\$ 4,501,040	\$ 211,193	\$ 66,851	\$ 9,710,381
Restricted cash	31,911	-	-	-	2,728,867	-	-	-	2,760,778
Investments	-	-	-	7,100,856	69,413	-	-	-	7,170,269
Restricted investments	1,474,661	-	-	145,302	-	-	-	-	1,619,963
Due from other governments	8,077,281	-	-	-	-	-	-	-	8,077,281
Other receivables	137,118,088	76,450	-	861,658	1,427,641	387,929	550,000	-	140,421,766
Taxes receivable, net	-	357,811	-	-	-	-	-	-	357,811
Other current assets	-	446,271	-	-	428,332	2,036	-	-	876,639
Total current assets	146,701,941	1,029,780	62,240	12,827,625	4,654,253	4,891,005	761,193	66,851	170,994,888
Capital Assets Not Being Depreciated	-	50,000	-	1,012,937	33,486	1,850,000	-	-	2,946,423
Capital Assets, Net	-	905,133	-	53,341,095	21,903,447	44,567,895	4,838,969	-	125,556,539
Other Assets	10	-	-	565,370	-	-	-	-	565,380
Total	146,701,951	1,984,913	62,240	67,747,027	26,591,186	51,308,900	5,600,162	66,851	300,063,230
Deferred Outflows of Resources - Pension	-	-	-	-	539,433	-	-	-	539,433
Total assets and deferred outflows of resources	\$ 146,701,951	\$ 1,984,913	\$ 62,240	\$ 67,747,027	\$ 27,130,619	\$ 51,308,900	\$ 5,600,162	\$ 66,851	\$ 300,602,663
Liabilities									
Current liabilities:									
Accounts payable	\$ -	\$ 5,675	\$ -	\$ 457,247	\$ 632,769	\$ -	\$ 7,628	\$ -	\$ 1,103,319
Accrued expenses	1,096	-	-	88,211	669,678	222,000	25,431	-	1,006,416
Current portion of long-term debt	-	-	-	1,294,025	-	700,000	720,000	50,000	2,764,025
Current portion of compensated absences	-	-	-	539,129	-	-	-	-	539,129
Due to primary government	-	-	-	-	-	1,188,970	2,298,455	-	3,487,425
Unearned revenue	-	-	-	-	3,094,456	-	-	-	3,094,456
Escrow liability	9,582,757	-	-	-	-	-	-	-	9,582,757
Other liabilities	-	-	-	-	-	8,796	-	-	8,796
Total current liabilities	9,583,853	5,675	-	2,378,612	4,396,903	2,119,766	3,051,514	50,000	21,586,323
Investment Derivative, Pay Fixed/Receive Variable Basis Swap	-	-	-	-	-	337,550	-	-	337,550
Long-Term Debt	-	-	20,000	20,791,121	-	14,840,000	380,000	-	36,031,121
Net Pension Liability	-	-	-	-	2,181,623	-	-	-	2,181,623
Compensated Absences	-	70,438	-	166,778	598,492	-	-	-	835,708
Nonrecourse Debt Issues	137,118,088	-	-	-	-	-	-	-	137,118,088
Total liabilities	146,701,941	76,113	20,000	23,336,511	7,177,018	17,297,316	3,431,514	50,000	198,090,413
Deferred Inflows of Resources									
Deferred tax revenue	-	357,811	-	-	-	-	-	-	357,811
Deferred service concession arrangement receipts	-	-	-	-	-	-	550,000	-	550,000
Total deferred inflows of resources	-	357,811	-	-	-	-	550,000	-	907,811
Net Position									
Net investment in capital assets	-	955,133	-	31,255,949	21,936,933	29,688,925	3,738,969	-	87,575,909
Restricted	-	546,700	-	145,302	-	-	-	-	692,002
Unrestricted	10	49,156	42,240	13,009,265	(1,983,332)	4,322,659	(2,120,321)	16,851	13,336,528
Total net position	10	1,550,989	42,240	44,410,516	19,953,601	34,011,584	1,618,648	16,851	101,604,439
Total liabilities and deferred inflows of resources	\$ 146,701,951	\$ 1,984,913	\$ 62,240	\$ 67,747,027	\$ 27,130,619	\$ 51,308,900	\$ 5,600,162	\$ 66,851	\$ 300,602,663

See notes to financial statements

County of Lackawanna, Pennsylvania

Combining Statement of Revenues, Expenses and Change in Net Position - Discretely Presented Component Units
 Year Ended December 31, 2018

	Scranton Lackawanna Health And Welfare Authority	Lackawanna County Library System	Lackawanna County Redevelopment Authority	Lackawanna County River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	County of Lackawanna Land Bank	Totals
Revenues									
Charges for services	\$ 50,231	\$ 65,000	\$ -	\$ 8,718,465	\$ 1,139,212	\$ -	\$ 705,747	\$ 45,652	\$ 10,724,307
Real estate taxes	-	4,213,702	102,322	-	-	-	-	-	4,316,024
Rental income	11,813,101	-	-	-	-	914,774	-	-	12,727,875
Interest income	141,797	20,525	10	124,700	6,097	238,743	-	28	531,900
Operating grants and contributions	-	968,742	-	-	10,221,485	1,543,986	-	-	12,734,213
Capital grants and contributions	-	-	-	-	2,447,225	-	-	-	2,447,225
Other	4,948,345	38,387	3,649	687,989	92,424	-	-	-	5,770,794
Total revenues	16,953,474	5,306,356	105,981	9,531,154	13,906,443	2,697,503	705,747	45,680	49,252,338
Expenses									
Public works and enterprises	-	5,486,549	-	8,672,364	12,762,175	-	-	-	26,921,088
Culture and recreation	-	-	-	-	-	-	-	-	-
Operating expenses	62,306	-	73,109	-	-	312,908	57,434	30,592	536,349
Debt service	16,891,168	-	611	460,866	-	594,812	95,358	-	18,042,815
Unallocated depreciation and amortization	-	-	-	-	1,837,282	1,542,187	383,895	-	3,763,364
Total expenses	16,953,474	5,486,549	73,720	9,133,230	14,599,457	2,449,907	536,687	30,592	49,263,616
Change in net position	-	(180,193)	32,261	397,924	(693,014)	247,596	169,060	15,088	(11,278)
Net Position (Deficit), Beginning	10	1,731,182	9,979	44,012,592	20,646,615	33,763,988	1,449,588	1,763	101,615,717
Net Position (Deficit), Ending	\$ 10	\$ 1,550,989	\$ 42,240	\$ 44,410,516	\$ 19,953,601	\$ 34,011,584	\$ 1,618,648	\$ 16,851	\$ 101,604,439

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

1. Summary of Significant Accounting Policies

The major accounting principles and practices followed by the County of Lackawanna, Pennsylvania (the "County") are summarized below.

Nature of Operations

The County is located in northeastern Pennsylvania and was established under the laws of the Commonwealth of Pennsylvania in 1879. The County operates under a Home Rule charter form of government. An elected three member Board of Commissioners governs the County, which provides general governmental services, public safety, health and welfare, recreation and community enrichment programs.

Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units, discussed in Note 2, are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Fund Financial Statements

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

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

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

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

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

The County reports the following major governmental funds:

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

The Health and Human Services Fund accounts for the provision of specified social services such as daycare, aging, medical transportation, healthcare, human services and drug and alcohol treatment and prevention.

The Debt Service Fund accounts for resources accumulated for the purpose of funding long-term debt obligations. The County records all debt service tax revenue directly in its debt service fund.

The Capital Projects Fund accounts for the financial resources to be used for acquisition, renovation or construction of major capital assets.

The County reports the following nonmajor governmental funds:

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

The County reports the following proprietary fund:

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

The County reports the following fiduciary funds:

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

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

Budgetary Data

In accordance with provisions of Section 1782 of Public Law No. 323, as amended, of the Commonwealth of Pennsylvania, commonly known as the County Code, the County prepares and adopts a budget on or before December 31 for the following fiscal year. Budgets are prepared on a modified accrual basis and are adopted for the General and Debt Service Funds.

In general, the County maintains budgetary control by major expenditure classification (salaries, fringe benefits, materials and supplies, purchased services and capital outlay) within departments. The County Commissioners must approve budgetary transfers and/or additional appropriations not spent in prior years. Expenditures cannot legally exceed the appropriations at the budgetary control levels described above. Appropriations that are not expended lapse at the end of the fiscal year.

New Accounting Principles

The County adopted Governmental Accounting Standards Board ("GASB") Statement No. 85, *Omnibus 2017*, during 2018. GASB Statement No. 85 addressed certain practice issues related to blended component units, goodwill, fair value measurement and application, and postemployment benefits. The adoption of this Statement did not have a material effect on the County's financial statements.

The County adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues*, during 2018. GASB Statement No. 86 provides guidance on the in-substance defeasance of debt when the entity solely uses existing resources placed in an irrevocable trust to extinguish debt. The adoption of this Statement did not have a material effect on the County's financial statements.

The County early adopted GASB Statement No. 89, *Accounting for Interest Incurred before the End of a Construction Period*, during 2018. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplified the accounting for interest cost incurred before the end of a construction period. This Statement is adopted on prospective basis and did not have a material impact on the County's financial statements.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and certificates of deposit with an original maturity of three months or less, which are carried at cost.

Investments

Investments in all funds of the primary government are stated at fair value based on quoted market prices. Investments held by the Internal Service Fund are restricted to paying claims of the workers' compensation program.

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

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

Cash Held for Capital Projects

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

Capital Assets

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

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

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

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

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Escrow Liabilities

Escrow liabilities represent amounts that are held by the County primarily for items such as undistributed fees, fines and costs held by row offices, bail collections, proceeds from sheriff's sales, child support collections, various taxes, fees and licenses and taxes to be distributed to municipalities and school districts.

Compensated Absences

The County's collective bargaining agreements specify the sick and vacation leave policies for employees covered by those agreements. Generally, covered employees are paid for unused sick days, up to maximum amounts established by the contracts, upon separation from the County. Nonunion County employees are paid for unused sick leave, up to a maximum of 100 days, at retirement. Vacation days generally do not accumulate; however, employees subject to certain unions are allowed to accumulate vacation days.

Derivative Financial Instruments

The County has entered into a variable-to-variable basis swap, which is considered an investment derivative instrument, related to its General Obligation Bonds, Series B of 2010 (Note 7). The fair value of the derivative is recorded as a liability within the Statement of Net Position with the periodic change in fair value reported as a gain/loss in the Statement of Activities.

The County has also entered into future variable-to-fixed cash swaps, which are considered investment derivative instruments, related to its future issuance of its General Obligation Bonds, Series of 2019 and its General Obligation Bonds, Series of 2020. The fair value of the derivatives are recorded as a liability within the Statement of Net Position with the periodic change in fair value reported as a gain/loss in the Statement of Activities.

Deferred Outflows/Inflows of Resources

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

Self-Insurance

The County is self-insured for workers' compensation claims. The County maintains a stop loss policy limiting its liability for any one specific claim. The County accounts for its self-insurance activity in its Internal Service Fund, which charges other funds based on the estimated annual cost.

Governmental Fund Balance Classifications/Policies and Procedures

The County classifies its governmental fund balances as follows:

- *Non-spendable* - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Such non-spendable items include inventory and prepaid expenses.
- *Restricted* - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. Such restricted items include amounts restricted for debt service, certain grant programs, and capital projects.

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2018

- *Committed* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County through formal action of the County's "highest level of decision-making authority" which do not lapse at year-end.
 - The Commissioners are its highest level of decision-making authority, and
 - The Commissioners commit funds through an ordinance.
- *Assigned* - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the County, but not through formal action of the Commissioners.
 - The Commissioners authorized the County's Chief Financial Officer to assign funds to specific purposes. The County has assigned funds for future infrastructure projects.
- *Unassigned* - includes fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Interfund Activity

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

Restricted Net Position/Fund Balances

When both restricted and unrestricted resources are available for use, the County's policy is to use restricted resources first, and then unrestricted resources as needed.

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the County's policy is generally to first apply the expenditure toward restricted resources and then to unrestricted resources.

When an expenditure is incurred that can be paid using either committed, assigned, or unassigned amounts, the County's policy is generally to apply the expenditure to committed resources, then to assigned resources, and then to unassigned resources.

Allocation of Indirect Expenses

The County does not allocate any indirect expenses including depreciation.

Use of Estimates

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2018

2. Reporting Entity

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

The component units discussed below are included in the County's reporting entity because of the significance of financial and operational relationships with the County.

Blended Component Unit

Some component units, despite being legally separate from the County, are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is:

- The Lackawanna County Commission on Drug and Alcohol Abuse ("LCCDAA") is responsible for developing and implementing a plan for the prevention and treatment of drug and alcohol abuse in Lackawanna County. The LCCDAA receives funding primarily from the Commonwealth of Pennsylvania and is blended as part of the Health and Human Services Fund, a major special revenue fund of the County.

Discretely Presented Component Units

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

- The Scranton Lackawanna Health and Welfare Authority ("SLHWA") acts as a conduit for tax-exempt financing in the County. The County Commissioners appoint the governing board of the SLHWA.
- The Lackawanna County Library System ("LCLS") oversees the distribution of funds to seven not-for-profit libraries in the County. The funding is generated from a special real estate tax levied by the County as well as from the Commonwealth of Pennsylvania. The County Commissioners appoint the governing board of the LCLS.
- The Redevelopment Authority of Lackawanna County ("RALC") administers grants on behalf of the Commonwealth of Pennsylvania and the County. The County Commissioners appoint the governing board of the RALC.
- The Lackawanna River Basin Sewer Authority ("LRBSA") owns and operates a sewer collection and treatment system covering various municipalities in the County. The County Commissioners appoint the governing board of the LRBSA.
- The County of Lackawanna Transit System Authority ("COLTS") operates the County's mass transit system. The County Commissioners appoint the governing board of COLTS. COLTS has a fiscal year end of June 30, as such, the amounts included herein for COLTS are as of and for the year ended June 30, 2018.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

- The Multi-Purpose Stadium Authority of Lackawanna County ("MPSA") operates the Lackawanna County Multi-Purpose Stadium. The County Commissioners appoint the governing board of the MPSA. The MPSA owes the County approximately \$1,189,000. In addition, the County has guaranteed the outstanding debt of MPSA for the entire term of the outstanding agreements and secured the debt with a portion of future hotel tax collections. Apart from the Hotel Room Rental collections, which the County assigned to MPSA for repayment of debt service, the MPSA has met each of its periodic debt service payment requirements.
- The Lackawanna County Performing Arts Center Authority ("LCPACA") operates a performing arts amphitheater. The County Commissioners appoint the governing board of the LCPACA. The County has agreed to fund any deficits of the LCPACA. The County refinanced certain of the LCPACA's long-term debt outstanding and loaned the proceeds of the County's issuance to the LCPACA. At December 31, 2018, approximately \$1,100,000 was due and payable from LCPACA to the County.
- The Lackawanna County Land Bank is a public authority created to efficiently acquire, hold, manage and develop foreclosed property, as well as other vacant and abandoned properties, for the purpose of returning such properties to the County's active tax role. The County Commissioners appoint the governing board of the Land Bank.

Related Organizations

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

- Lackawanna County Housing Authority
- Lackawanna County Industrial Development Authority
- Lackawanna Heritage Valley Authority
- Northeast Pennsylvania Convention and Visitors Bureau
- Lackawanna County Solid Waste Management Authority

Joint Ventures

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

- Wilkes-Barre/Scranton International Airport ("Airport"). A joint venture with the County of Luzerne, the Lackawanna County Commissioners and two members of the Luzerne County Council and the Luzerne County Manager serving as the members of the governing board. The County has an ongoing financial interest in the Airport by providing operating and capital funding. In 2017, the County did not provide operating or capital funding to the Airport. The County has included a net investment in Airport of approximately \$4,550,000 in its capital assets at December 31, 2018.
- Lackawanna-Susquehanna Behavioral Health/Intellectual Disabilities Early Intervention. A joint venture with the County of Susquehanna, the commissioners of each County appoint members of the governing board. The County has no equity interest in this joint venture but does provide an annual match of funds. The Commonwealth of Pennsylvania primarily funds the joint venture.

All separately published audit reports of the component units and joint ventures are available for public inspection in the Office of the County Commissioners.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

3. Deposits with Financial Institutions and Investments

Under the County Administrative Code, the County is authorized to invest its funds in the following:

- United States Treasury bills.
- Short-term obligations of the United States government or its agencies or instrumentalities.
- Savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation ("FDIC") or other like insurer.
- Obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States, the Commonwealth of Pennsylvania, or any agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania which are insured by the FDIC or other like insurer. For any amounts in excess of the insured maximum, such deposits must be collateralized by a pledge or assignment of assets pursuant to Act 72 of the General Assembly of the Commonwealth of Pennsylvania. Certificates of deposit may not exceed 20 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 Administrative Code provides that a pension or retirement fund may make any investment authorized by 20 PA C.S. 73 (relating to fiduciary investments).

Deposits with Financial Institutions

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The County does not have a formal policy for custodial credit risk. At December 31, 2018, the bank balance of the County's deposits with financial institutions, including cash equivalents, was \$45,646,288 compared to the carrying amount of \$42,844,994. The difference is caused by items in-transit and outstanding checks. \$1,764,886 of the County's deposits were covered by federal depository insurance and \$33,592,490 of the County's deposits were exposed to custodial credit risk and were uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the County's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971, as amended. In addition, \$10,288,912 was exposed to custodial credit risk and was uninsured and not otherwise collateralized.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

PLGIT is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase "shares" in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Depository Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provide by law is pledged by the depository. Shares may be withdrawn at any time in any amount, with no liquidity fees or redemption gates. PLGIT/PLGIT PLUS have received an "AAm" rating from Standard and Poor's, an independent credit rating agency. The County considers its deposits with PLGIT to be cash equivalents for financial reporting purposes. At December 31, 2018, the carrying amount and the bank balance of the County's deposits with PLGIT was \$9,933,322.

The Pennsylvania Treasurer's INVEST Program for Local Governments and Nonprofits, ("INVEST") is a program of two investment pools designed specifically for local government and nonprofit groups. INVEST functions similarly to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase "shares" in INVEST, which invests the proceeds in: obligations of the United States Government; repurchase agreements with bank and non-bank financial institutions and other debt instruments of banks, financial institutions, and non-financial institutions authorized for the shareholder by Commonwealth of Pennsylvania Statute (this would include certificates of deposit and money market funds). Deposits held by INVEST are not insured by the Federal Depository Insurance Corporation; however, deposits are collateralized with securities held by the pledging institution, but not in the County's name. Shares may be withdrawn at any time, with no liquidity fees or redemption gates. INVEST has received an "AAAm" rating from Standard and Poor's, an independent credit rating agency. The County considers its deposits with INVEST to be cash equivalents for financial reporting purposes. At December 31, 2018, the carrying amount and the bank balance of the County's deposits with INVEST was \$355,589.

Investments

As of December 31, 2018, the County's investments are classified as restricted assets and investments and are carried at fair market value and consist of the following:

Governmental Activities	Maturities	Fair Value
Internal Service Fund:		
U.S. government agency	3 - 19 years	\$ 1,338,840
Money market funds	N/A	18,935
		<u>\$ 1,357,775</u>
Pension Trust Fund	Maturities	Fair Value
Common stock	N/A	\$ 75,217,297
Corporate and tax-exempt bonds	1 - 30 years	26,560,863
U.S. government obligations	1 - 30 years	27,578,007
Mutual funds	N/A	14,903,917
Certificates of deposit	N/A	7,800,226
Money market	N/A	2,680,308
		<u>\$ 154,740,618</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Interest Rate Risk

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

Credit Risk and Concentration of Credit Risk

The County has limits on the amount that may be invested in any one issuer. At December 31, 2018, no one issuer totaled more than five percent of the Pension Trust Fund's net assets. The Pension Trust Fund's investment policy requires all bonds to be rated as "investment grade" by Standard & Poor's and Moody's Investors Service.

The County's investments in debt securities of the Governmental Activities had the following credit risk at December 31, 2018:

<u>Investment</u>	<u>S&P Rating</u>	<u>%</u>
U.S. government obligations	AA+	<u>100.00 %</u>

The County's investments in debt securities of the Pension Trust Fund had the following credit risk at December 31, 2018:

<u>Investment</u>	<u>S&P Rating</u>	<u>%</u>
Money market	Note rated	9.2 %
Corporate bonds	AAA	27.3
Corporate bonds	AA+	0.3
Corporate bonds	AA	8.9
Corporate bonds	AA-	2.9
Corporate bonds	A+	11.9
Corporate bonds	A	10.5
Corporate bonds	A-	11.9
Corporate bonds	BBB+	8.6
Corporate bonds	BBB	3.1
Corporate bonds	BBB-	<u>5.4</u>
Total		<u>100.00 %</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Pension Trust Fund will not recover the value of its investments or collateral securities that are in the possession of an outside party. All investments of the Pension Trust Fund are held in trust at Community Bank, N.A. at December 31, 2018.

Fair Value Measurements

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

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Governmental activities:				
U.S. government agency	\$ 1,338,840	\$ -	\$ 1,338,840	\$ -
Money market	18,935	18,935	-	-
Total governmental activities	1,357,775	18,935	1,338,840	-
Pension trust fund:				
Money market funds	2,680,308	2,680,308	-	-
Certificates of deposit	7,800,226	7,800,226	-	-
U.S. government obligations	27,578,007	3,156,275	24,421,732	-
Corporate bonds	26,560,863	-	26,560,863	-
Tax exempt bonds	-	-	-	-
International mutual funds	14,903,917	14,903,917	-	-
Common stock:				
Communication services	8,720,405	8,720,405	-	-
Consumer discretionary	7,777,345	7,777,345	-	-
Consumer staples	3,512,599	3,512,599	-	-
Energy	5,174,074	5,174,074	-	-
Financials	10,287,164	10,287,164	-	-
Healthcare	8,817,941	8,817,941	-	-
Industrials	10,798,924	10,798,924	-	-
Information technology	17,334,834	17,334,834	-	-
Other	2,794,011	2,794,011	-	-
Total pension trust fund	154,740,618	103,758,023	50,982,595	-
Total investments	\$ 156,098,393	\$ 103,776,958	\$ 52,321,435	\$ -
Investment derivatives (liability)	\$ 5,674,967	\$ -	\$ -	\$ 5,674,967

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

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

4. Due from Other Governments

The amounts reported in the County's various governmental funds at December 31, 2018 as due from other governments is summarized below:

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>
General fund	\$ 1,216,994	\$ 3,661,901	\$ 206,699	\$ 5,085,594
Health and human services fund	-	775,260	-	775,260
Debt service fund	-	-	2,148,455	2,148,455
Capital projects fund	-	-	150,000	150,000
Non-major funds	559,382	-	1,105,212	1,664,594
Total	<u>\$ 1,776,376</u>	<u>\$ 4,437,161</u>	<u>\$ 3,610,366</u>	<u>\$ 9,823,903</u>

Amounts due from the federal and state government are primarily federal and Commonwealth of Pennsylvania grant awards receivable at December 31, 2018. The amount due from local governments represents various receivables from other units of local government.

5. Real Estate Taxes

The total tax on real estate in 2018 was 57.42 mills (\$.05742 per \$1,000 of assessed valuation). Of this amount, 53.60 mills were levied for general and debt service purposes, 2.82 mills were levied for library services in the County and 1.00 mills were levied for culture and education fund purposes. Amounts collected for library services are remitted to the Lackawanna County Library System.

Real estate taxes are collected by the Single Tax Office and remitted to the County. The County's Tax Assessor Office is responsible for establishing assessed values.

The schedule for real estate taxed levied each year is as follows:

February 1	Levy date
February 1 - February 28	2.5 percent discount period
March 1 - April 30	2.0 percent discount period
May 1 - June 30	Face payment period
July 1 - December 31	10 percent penalty period
January 1	Lien date

Delinquent real estate taxes receivable at December 31, 2018 were approximately \$25,600,000. The amount of delinquent taxes receivable is reported net of an allowance for doubtful accounts of approximately \$15,800,000.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

6. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2018, was as follows:

	January 1, 2018	Acquisitions	Disposals	Transfer	December 31, 2018
Capital assets not being depreciated:					
Land	\$ 3,533,235	\$ -	\$ -	\$ -	\$ 3,533,235
Construction-in-progress	5,390,358	17,279,962	-	(21,129)	22,649,191
Total capital assets, not being depreciated	<u>8,923,593</u>	<u>17,279,962</u>	<u>-</u>	<u>(21,129)</u>	<u>26,182,426</u>
Capital assets being depreciated:					
Buildings and improvements	123,118,360	258,903	-	-	123,377,263
Machinery and equipment	47,737,067	1,073,131	-	-	48,810,198
Equipment under capital lease	1,423,325	-	-	-	1,423,325
Infrastructure	52,866,795	398,693	-	21,129	53,286,617
Investment in Airport	8,727,567	-	-	-	8,727,567
Total capital assets, being depreciated	<u>233,873,114</u>	<u>1,730,727</u>	<u>-</u>	<u>21,129</u>	<u>235,624,970</u>
Less accumulated depreciation for:					
Buildings and improvements	(42,872,416)	(2,934,279)	-	-	(45,806,695)
Machinery and equipment	(40,685,665)	(1,948,035)	-	-	(42,633,700)
Equipment under capital lease	(1,161,860)	(94,888)	-	-	(1,256,748)
Infrastructure	(31,615,525)	(629,676)	-	-	(32,245,201)
Investment in Airport	(4,014,208)	(161,226)	-	-	(4,175,434)
Total accumulated depreciation	<u>(120,349,674)</u>	<u>(5,768,104)</u>	<u>-</u>	<u>-</u>	<u>(126,117,778)</u>
Net capital assets being depreciated	<u>113,523,440</u>	<u>(4,037,377)</u>	<u>-</u>	<u>21,129</u>	<u>109,507,192</u>
Governmental activities capital assets, net	<u>\$ 122,447,033</u>	<u>\$ 13,242,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,689,618</u>

At December 31, 2018, the County was in the process of completing a variety of capital projects. A summary of the significant projects underway is as follows:

Project	Awarded Amount	Expended to Date	Remaining to Expend
Building renovations	<u>\$ 17,342,904</u>	<u>\$ 14,702,935</u>	<u>\$ 2,639,969</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Capital asset balances for discretely presented component units at December 31, 2018, were as follows:

	Lackawanna County Library System	Lackawanna River Basin Sewer Authority	County of Lackawanna Transit System Authority	Multi-Purpose Stadium Authority of Lackawanna County	Lackawanna County Performing Arts Center Authority	Total
Capital assets not being depreciated:						
Land	\$ 50,000	\$ 518,017	\$ 33,486	\$ 1,850,000	\$ -	\$ 2,451,503
Construction in process	-	494,920	-	-	-	494,920
Total capital assets, not being depreciated	50,000	1,012,937	33,486	1,850,000	-	2,946,423
Capital assets being depreciated:						
Infrastructure	-	76,332,127	-	-	-	76,332,127
Buildings and improvements	1,769,257	-	18,890,083	52,675,558	7,641,018	80,975,916
Collections	672,457	-	-	-	-	672,457
Equipment and furnishings	70,152	2,122,166	2,972,945	4,112,360	1,186,885	10,464,508
Land improvements	-	52,245	-	-	3,498,396	3,550,641
Vehicles	-	311,442	20,389,173	-	-	20,700,615
Service concession assets	-	-	-	-	224,107	224,107
Less accumulated depreciation	(1,606,733)	(25,476,855)	(20,348,754)	(12,220,023)	(7,711,437)	(67,363,802)
Net capital assets being depreciated	905,133	53,341,125	21,903,447	44,567,895	4,838,969	125,556,569
Capital assets, net	\$ 955,133	\$ 54,354,062	\$ 21,936,933	\$ 46,417,895	\$ 4,838,969	\$ 128,502,992

7. Accrued Expenses

The County's Governmental Activities accrued expenses consist of the following at December 31, 2018:

Accrued legal fees	\$ 2,550,000
Accrued interest payable	2,208,399
Accrued wages, benefits and taxes	2,160,942
Other	257,295
<u>Total</u>	<u>\$ 7,176,636</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

8. Long-Term Obligations

Description	January 1, 2018	Additions	Payments/ Refunding	December 31, 2018	Current Portion
A. GO Notes, Series D of 2008	\$ 8,105,540	\$ -	\$ (1,171,772)	\$ 6,933,768	\$ 1,079,704
B. GO Bonds, Series A of 2009	7,265,000	-	(15,000)	7,250,000	15,000
C. GO Notes, Series B of 2009	26,445,000	-	(5,000)	26,440,000	5,000
D. GO Notes, Series A of 2010	923,000	-	(446,000)	477,000	477,000
E. GO Bonds, Series B of 2010	21,765,000	-	(50,000)	21,715,000	50,000
F. GO Notes, Series of 2011	9,609,000	-	(2,234,000)	7,375,000	2,343,000
G. GO Notes, Series A of 2013	1,660,054	-	(280,937)	1,379,117	290,631
H. GO Notes, Series of 2014	1,319,000	-	(653,000)	666,000	666,000
I. GO Notes, Series A of 2014	1,854,700	-	(112,023)	1,742,677	117,350
J. GO Notes, Series B of 2014	4,605,339	-	(307,745)	4,297,594	317,203
K. GO Note, Series of 2015	4,885,000	-	(1,206,000)	3,679,000	1,224,000
L. GO Note, Series A of 2016	44,195,000	-	(385,000)	43,810,000	390,000
M. GO Note, Series B of 2016	23,220,000	-	(2,915,000)	20,305,000	2,975,000
N. GO Note, Series C of 2016	1,219,337	15,793,199	(90,270)	16,922,266	587,359
O. GO Bond, Series A of 2017	57,500,000	-	(5,000)	57,495,000	5,000
P. GO Note, Series of 2018	-	1,245,536	-	1,245,536	-
Total	214,570,970	17,038,735	(9,876,747)	221,732,958	10,542,247
Bond premiums, discounts and deferred refunding	(1,291,225)	-	70,354	(1,220,871)	-
	<u>\$ 213,279,745</u>	<u>\$ 17,038,735</u>	<u>\$ (9,806,393)</u>	<u>\$ 220,512,087</u>	<u>\$ 10,542,247</u>

Governmental Activities

- A. During 2008, the County issued \$13,858,652 (Series D of 2008) of zero coupon General Obligation Notes (capital appreciation notes). The proceeds of the Series D notes were used to advance refund a portion of the County's Series A of 1999 general obligation bonds and to finance various capital projects. The notes are due in varying installments that yield to maturity at rates ranging from 6.98 percent to 7.50 percent with final maturity scheduled for July 2023.
- B. During 2009, the County issued \$7,375,000 (Series A of 2009) of taxable General Obligation Bonds. The proceeds of the bonds were used to currently refund the County's Series C of 2008 General Obligation Bonds. The bonds are due in varying annual installments plus interest at rates ranging from 7.00 percent to 7.25 percent with final maturity scheduled for October 2029.
- C. During 2009, the County issued \$26,495,000 (Series B of 2009) of General Obligation Notes. The proceeds of the notes were used to advance refund a portion of the County's Series A and B of 2007 Bonds. The notes are due in varying annual installments plus interest at rates ranging from 5.65 percent to 6.00 percent with final maturity scheduled for September 2034 and include an option to early redeem on or after September 2019. See Subsequent Event footnote 19.
- D. During 2010, the County issued \$3,319,000 (Series A of 2010) of taxable General Obligation Notes. The proceeds of the notes were used to currently refund the County's Series B of 1999 General Obligation Bonds and to pay the costs of issuance. The notes are due in varying annual installments plus interest at a rate of 4.94 percent per annum, with final maturity scheduled for February 2019. Of the \$3,319,000 borrowing, \$2,499,000 related to funds that were loaned to the LCPACA, and \$820,000 related to County projects. The County is receiving periodic payments of principal and interest from LCPACA, amounting to \$335,793 in principal during 2018, on its share of this obligation. Principal due in 2019 on the County's share of this borrowing is \$117,989. The County also agreed to fund any operating expenses of the LCPACA if its revenues under a Concert Concession Agreement were insufficient. At December 31, 2018, the County had not paid any operating, capital or debt service expenses of LCPACA, beyond those disclosed in Note 15.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

- E. During 2010, the County issued \$58,540,000 (Series B of 2010) of General Obligation Bonds. The proceeds of the Bonds were used to currently refund the County's Series B of 2008 General Obligation Bonds and terminate the related interest rate swap agreement. The bonds are due in varying annual installments plus interest at remaining rates ranging from 3.375 percent to 5.00 percent, with final maturity scheduled for September 2035 and includes an optional call date starting September 2026. In addition, the County terminated its pay-fixed, receive-variable interest rate swap agreement on the 2008 Series A and B General Obligation Bonds and paid approximately \$10,183,000 upon termination from the proceeds of its Series B of 2010 General Obligation Bonds. These bonds were partially advance refunded in May 2017 through the County's issuance of its General Obligation Bonds, Series A of 2017.

Effective October 1, 2010, the County entered into a variable-to-variable swap agreement modifying the interest rate payments associated with the County's 2010 Series B General Obligation Bonds. The agreement terminates on September 1, 2035. The effect of the Agreement requires the County to pay a variable rate equal to the SIFMA Index plus 0.787 percent payable each March 1 and September 1 through final maturity. Pursuant to this agreement, the County receives a variable rate equal to 68 percent of the 3-month London Inter-Bank Offered Rate ("LIBOR") plus 0.15 percent payable to the County on each March 1 and September 1 through final maturity. The Swap Notional amount amortizes through termination as the 2010 B Bonds amortize.

- F. During 2011, the County issued \$21,000,000 (Series of 2011) of General Obligation Notes to finance unfunded debt of the County, including certain outstanding obligations of current and prior years and to fund the costs and expenses of issuing the 2011 note. These notes are due in varying monthly installments plus interest at a fixed-rate of 4.75 percent, with final maturity scheduled for December 2021. If the Note is considered taxable at any time, it shall mature in installments of principal and interest at the maximum taxable rate of interest of 18 percent. The Note is subject to extraordinary mandatory redemption by the County prior to maturity to the extent that there are "available amounts" in the preceding fiscal year as determined by the County pursuant to the IRS regulations.
- G. During 2013, the County issued \$2,834,108 of General Obligation Notes (Series A of 2013) to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 2.84 percent for three years and then adjusting to 70 percent of prime rate with a floor of 2.84 percent and a ceiling of 5.50 percent with final maturity scheduled for July 2023.
- H. During 2014, the County issued \$2,587,000 of General Obligation Notes (Series of 2014). The proceeds of the notes were used to currently refund the County's Series C of 2004 General Obligation Bonds. The notes are due in varying installments of principal and interest at a fixed-rate of 1.93 percent, with principal payments beginning in October 2015 and final maturity scheduled for October 2019.
- I. During 2014, the County issued \$2,172,492 of taxable General Obligation Notes (Series A of 2014). The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 4.70 percent with final maturity scheduled for May 2030.
- J. During 2014, the County issued \$5,492,941 of General Obligation Notes (Series B of 2014). The proceeds of the notes were used to finance various capital projects. The notes are due in varying installments of principal and interest at a fixed-rate of 3.05 percent with final maturity scheduled for May 2030.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

- K. During 2015, the County issued \$7,891,000 Taxable General Obligation Note (Series of 2015). The proceeds of this were used to currently refund the County's outstanding General Obligation Note, Series A of 2012; currently refund the County's outstanding General Obligation Note, Series B of 2012; and pay the costs and expense of issuance of the Note. The Note is due in varying semi-annual installments of principal and interest at a fixed-rate of 2.290 percent with final maturity scheduled for October 2020.
- L. During 2016, the County issued \$44,655,000 of General Obligation Bonds (Series A of 2016) to currently refund the County's outstanding General Obligation Notes, Series A of 2008 and pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual installments of principal and interest at remaining rates ranging from 2.50 percent to 5.00 percent, with final maturity scheduled for September 2033 and include an optional early redemption starting September 2024.
- M. During 2016, the County issued \$25,160,000 of General Obligation Bonds (Series B of 2016) to: advance refund the County's outstanding General Obligation Bonds, Series A of 2007; advance refund the County's outstanding General Obligation Bonds, Series E of 2008; and, pay the costs and expenses of issuing the bonds. The bonds are due in varying semi-annual payments of principal and interest at remaining rates ranging from 2.50 percent to 5.00 percent, with final maturity scheduled for September 2029 and include an optional early redemption starting September 2024.
- N. During 2016, the County issued \$17,000,000 of General Obligation Note, Series of 2016. The proceeds of the note were used to finance the acquisition, planning, design, construction, renovation, furnishing and equipping of new facilities of the County consisting of the property formerly known as the Globe Store to be used for County governmental offices and to pay the costs and expense of issuance of the note. The note is due in varying monthly installments of principal and interest at rates ranging from 2.750 percent to 3.750 percent, with final maturity scheduled for 2041. The remaining balance on the note was drawn during 2018.
- O. During 2017, the County issued \$58,490,000 of General Obligation Bonds, Series of 2017. The proceeds of the Bonds were used to currently refund the County's outstanding General Obligation Bonds, Series B of 2007; advance refund the County's outstanding General Obligation Bonds, Series B of 2010; and, pay the costs and expenses of issuing the bonds. The bonds are due in varying annual installments of principal and interest at rates ranging from 2.00 percent to 5.00 percent, with final maturity scheduled for September 2035.

Effective July 1, 2017, the County entered into a basis rate swap agreement modifying the interest rate payments associated with the County's 2017 Series A General Obligation Bonds. The agreement terminates on September 1, 2035. The effect of the agreement requires the County to pay a variable rate equal to the SIFMA Index plus 0.787 percent payable the first day of each month through final maturity. Pursuant to this agreement, the County receives a variable rate equal to 68 percent of the 3-month London Inter-Bank Offered Rate ("LIBOR") less 0.02457 percent payable to the County on the first of each month through final maturity. The Swap Notional amount amortizes through termination as the 2017 A Bonds amortize.

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

- P. During 2018, the County issued its \$15,000,000 General Obligation Note, Series of 2018. The proceeds of the Note are to be used to (1) acquire, plan, design, construct, renovate, improve, furnish and equip new facilities of the County to be used by the County Courts; (2) plan, design, construct, install, furnish and equipment improvements and renovations to existing County facilities; (3) plan, design, acquire, construct, renovate and improve roads, bridges and parks in the County; (4) purchase capital equipment for use by the County; (5) additional capital projects as approved; and (6) pay the costs and expenses of issuing the Note. The Note is due in varying monthly installments of interest only at 4.125 percent per annum through August 2020, at which time, the Note becomes payable in monthly installments of principal and interest at rates ranging from 4.125 percent to 5.125 percent per annum through maturity in August 2043. At December 31, 2018, the County had drawn \$1,245,536 on this Note.

Interest paid on these bonds and notes during the year ended December 31, 2018 amounted to \$9,838,645, including swap related interest payments amounting to approximately \$397,000.

The following summarizes the County's estimated future debt service requirements on these bonds and note payable, exclusive of the effect of the interest rate swaps (Note 9), as of December 31, 2018. As rates vary, net interest rate swap payments will vary.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 10,542,247	\$ 9,590,034	\$ 20,132,281
2020	10,219,766	9,816,898	20,036,664
2021	8,532,203	11,451,139	19,983,342
2022	9,324,147	10,004,619	19,328,766
2023	11,124,371	8,230,623	19,354,994
2024-2028	65,473,277	29,205,961	94,679,238
2029-2033	73,071,286	16,297,407	89,368,693
2034-2038	30,164,363	2,580,879	32,745,242
2039-2043	<u>3,281,298</u>	<u>217,490</u>	<u>3,498,788</u>
Total	<u>\$ 221,732,958</u>	<u>\$ 97,395,050</u>	<u>\$ 319,128,008</u>

Defeased Debt

The County has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. government securities or securities collateralized by U.S. government securities. The securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets. At December 31, 2018, the amount of defeased bonds outstanding was \$57,470,000.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

At December 31, 2018, the following bonds outstanding had been defeased by the County:

Series	Final Maturity	Outstanding Principal at December 31, 2018
General Obligation Bonds, Series A of 1999	2022	\$ 4,450,000
General Obligation Bonds, Series B of 2007	2022	4,000,000
General Obligation Bonds, Series E of 2008	2022	5,950,000
General Obligation Notes, Series C of 2008	2029	6,695,000
General Obligation Bonds, Series B of 2010	2035	<u>36,375,000</u>
Total		<u>\$ 57,470,000</u>

Discretely Presented Component Units

The following is a summary of long-term debt for the discretely presented component units at December 31, 2018:

	<u>Amount</u>
<u>Lackawanna County Redevelopment Authority</u>	
Term note, due in varying installments plus interest at 0 percent, maturing 2020.	<u>\$ 20,000</u>
<u>Lackawanna River Basin Sewer Authority</u>	
PENNVEST note, that bears interest at 1.274 percent for years 1 to 5 and 2.574 percent for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through August 2012) and matures in August 2032. Amortization of this loan commenced in May 2012.	854,607
PENNVEST note, that bears interest at 1.274 percent for years 1 to 5 and 2.574 percent for subsequent years; the loan is a multiple advance loan that is interest only for the first three years (through September 2012) and matures in September 2032. Amortization of this loan commenced in May 2013.	18,710,846
PENNVEST note, that bears interest at 1.000 percent for years 1 to 5 and 1.743 percent for subsequent years; the loan is interest only for a maximum of 3 years; and is a multiple advance loan that matures over a maximum of 240 months. Amortization is anticipated to commence in 2018.	<u>2,519,693</u>
Total Lackawanna River Basin Sewer Authority	<u>22,085,146</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements
December 31, 2018

	Amount
<u>Lackawanna County Performing Arts Center Authority</u>	
County General Obligation Bonds, Series B of 1999, due in varying annual installments plus interest at rates ranging from 5.875 percent to 7.000 percent; final maturity scheduled for 2019. Reported net of unamortized discount of \$2,281.	\$ 365,000
County General Obligation Bonds, Series B of 2002, due in varying annual installments plus interest at rates ranging from 2.65 percent to 6.85 percent; final maturity scheduled for 2020.	735,000
Total Lackawanna County Performing Arts Center Authority	1,100,000
<u>Multi-Purpose Stadium Authority</u>	
Variable Rate Demand Hotel Room Rental Tax Revenue Bonds, Series of 2013 due in varying installments in July of each year commencing July 2014. Interest payments are due monthly at a variable interest rate equivalent to a Weekly Rate determined for each Weekly Rate Period as calculated by PNC Capital Markets. The rate at December 31, 2018 was 1.67 percent. Final maturity scheduled for July 2036.	15,540,000
<u>Lackawanna County Land Bank</u>	
Note payable to Lackawanna County Community Development Revolving Loan account, bearing no interest.	50,000
Total discretely presented component units	\$ 38,795,146

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

Years ending December 31:	
2019	\$ 2,764,025
2020	2,425,375
2021	2,092,513
2022	2,165,458
2023	2,190,845
2024 - 2028	11,777,009
2029 - 2033	11,829,206
2034 - 2038	3,550,715
Total	\$ 38,795,146

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Scranton Lackawanna Health and Welfare Authority

The Scranton Lackawanna Health and Welfare Authority ("SLHWA") has entered into lease, sublease and guarantee agreements for facilities being financed through the issuance of bonds by SLHWA. SLHWA leases the facilities, limited to the project, from the various entities for a fixed rental amount equal to the proceeds from the sale of the bonds. SLHWA subleases the facilities back to the various entities for periodic lease payments in amounts sufficient to pay principal and interest on the bonds when due, the redemption premium, if any, and to pay all expenses and fees of SLHWA and trustee, if applicable, as related to the bonds. Accordingly, future lease payments due over the remaining terms of the leases (net of the portion applicable to interest) have been reflected as a receivable in SLHWA's balance sheet. The facilities revert to the lessee upon full and final payment of the bonds, and expiration of the lease. Accordingly, the cost of the facilities acquired with proceeds of bond issues has not been capitalized in the financial statements of SLHWA. SLHWA has executed a trust indenture with a trustee bar of SLHWA's rights, title and interest in the facilities under the various bond agreements.

SLHWA, as a result of the assignments, has no ongoing obligation for the debt but has chosen to include the debt and the related future rental receivable in its financial statements. As of December 31, 2018, there was one general obligation bond issue outstanding and eight notes and mortgages outstanding with an aggregate balance of \$137,118,088.

9. Service Concession Arrangement - Lackawanna County Performing Arts Center Authority

In January 2012, LCPACA entered into a long-term Service Concession Arrangement with a private company (the "Operator") for the primary purpose of leveraging LCPACA's assets to generate cash resources. Pursuant to the agreement, the Operator will operate and collect revenue from the Amphitheatre for a 10-year term ending December 31, 2021. LCPACA will receive \$550,000 annually, in two installment payments, over the term of the agreement. In April 2017, the fourth amendment to the agreement required the operator to pay the Authority an additional yearly rental fee in an amount equal to \$1.50 per paid ticket starting with the 2017 concert season. The amount the Authority would receive on each paid ticket would increase \$.25 every subsequent year until 2021, which is the final year of the concession agreement. The fourth amendment also gives the Operator the option to opt out of the agreement for the subsequent year if notice is given to the Authority by June 15. Assets continue to be reported in the statement of net position and are depreciated as applicable over their useful lives. Capital asset improvements made to the facility by the Operator are amortized to revenue over the remaining non-cancellable term and recognized as a capital asset depreciated over its useful life.

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

10. Derivative Financial Instrument - Basis Swaps

At December 31, 2018, the County had the following basis swaps:

	<u>2008 Swap</u>	<u>2019 Swap</u>	<u>2020 Swap</u>
Issue date	September 14, 2010	November 13, 2017	December 20, 2018
Notional amount	\$ 58,540,000	\$ 27,915,000	\$ 22,045,000
Fair Value	\$ (5,241,863)	\$ (249,094)	\$ (184,010)
Hedged instrument	General Obligation Bond, Series B of 2010	General Obligation Bonds, Series A of 2019	General Obligation Bonds, Series of 2020

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

	<u>2008 Swap</u>	<u>2019 Swap</u>	<u>2020 Swap</u>
Interest rate County pays	Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index plus 0.787 percent	SIFMA	80 percent of one-month London Interbank Offered Rate ("LIBOR")
Interest rate County receives	68 percent of the 3-month LIBOR plus .15 percent	2.238 percent	2.277 percent
Termination	September 1, 2035	March 15, 2034	September 1, 2035
Payment frequency	Semi-annually (March and September)	Semi-annually (March and September)	Semi-annually (March and September)

Objective of the Basis Swaps

The County entered into a variable-to-fixed interest rate swap transaction in connection with the issuance of its General Obligation Notes, Series A & B of 2008 (the "2008 Notes"). Subsequent to issuance, the County amended the 2008 Swap with the purpose of hedging the 2008 Notes. Included with the issuance of the County's General Obligation Bonds, Series B of 2010, is an amendment to the 2008 Swap to provide a variable-to-variable basis swap, to cash settle a portion of the 2008 Swap and relate the 2010 Swap to the 2010 Series B Bonds with the purpose of managing the interest rate payments on the 2010 Bonds.

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

The County entered a second future variable-to-fixed interest rate swap transaction effective August 1, 2020, in anticipation of the issuance of its General Obligation Bonds, Series of 2020.

Credit Risk

As of December 31, 2018, the County was not exposed to credit risk because the 2010 Swap, 2019 Swap and 2020 Swap had negative fair values. However, should interest rates change and the fair value of the 2010 Swap, 2019 Swap and 2020 Swap become positive, the County would be exposed to credit risk in the amount of the derivative's fair value.

The basis swap transactions expose the County to credit (default) risk. Should the County's long-term credit rating be downgraded in the future, this gives PNC an additional termination event if the County does not post the amount of collateral needed to secure its obligations under the terms of the Swap. In the event that the County cannot post the required amount of collateral, PNC will have the ability to obligate the County to terminate the Swap at the then current market rate.

Interest Rate Risk

The County is exposed to interest rate risk when the rate the County receives is less than the rate the County pays under the terms of the Swaps, the County would be obligated to make a periodic net swap payment to PNC, based on market conditions, the net swap payment due by the County to PNC could be significant.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

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, 2018, the associated debt used the LIBOR index and PNC's payment rate used the SIFMA LIBOR index. As a result, the County is exposed to basis risk on its investment derivative.

Termination Risk

The basis swap transactions expose the County to termination risk. If the County decides to terminate the Swap or a termination event occurs and the County is obligated to terminate the Swap and the market conditions are such that the County is "out of the money." In an "out of the money" scenario the County would have to pay a termination payment to PNC to terminate the Swap. Depending on market movements the County could potentially owe PNC a significant termination payment.

Derivative Financial Instrument - Interest Rate Swap - Component Unit

Objective of the Basis Swap

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

Terms

During 2013, the MPSA entered into a pay-fixed, receive-variable interest rate swap with PNC on its Variable Rate Demand Hotel Room Rental Tax Bond Revenues, Series of 2013. The agreement terminates on July 1, 2023. The notional value of the Swap at inception was \$18,970,000 and was \$15,540,000 at December 31, 2018. The MPSA receives a variable rate of interest based on the Weekly Rate of the SIFMA Municipal Swap Index (1.670667 percent) at December 31, 2018 from PNC and pays a fixed rate of interest of 2.336 percent. The Swap creates an average synthetic variable interest rate of 0.6653 percent as of December 31, 2018. No cash was paid or received when the Swap was originated.

Fair Value

At December 31, 2018, the Swap had a negative fair value of \$337,550, which is reported as investment derivative in the component units section of the statement of net position. Changes in the fair value are reported as investment income in the component units section of the statement of activities.

Basis Risk

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

Interest Rate Risk

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

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Termination Risk

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

Credit Risk

As of December 31, 2018, the MPSA was not exposed to credit risk because the 2013 Swap had a negative fair value. However, should interest rates change and the fair value of the 2013 Swap become positive, the MPSA would be exposed to credit risk in the amount of the derivative's fair value.

Rollover Risk

As of December 31, 2018, the MPSA was exposed to rollover risk because the 2013 Swap is scheduled to mature on July 1, 2023, while the hedged debt is scheduled to mature in July 2036.

11. Compensated Absences

The changes in the County's compensated absences in 2018 are summarized as follows:

Balance, January 1, 2018	\$ 3,428,778
Increase	2,142,668
Decrease	<u>(2,502,892)</u>
Balance, December 31, 2018	3,068,554
Less current portion	<u>227,168</u>
Long-term compensated absences	<u><u>\$ 2,841,386</u></u>

The County pays its compensated absences from the General Fund.

12. Pension Plan

Plan Description

The Lackawanna County Retirement Fund (the "Plan") is a single-employer defined benefit pension plan that covers all full-time employees of the County. The Plan provides retirement, disability and death benefits to its members and their beneficiaries. Cost of living adjustments are provided at the discretion of the Lackawanna County Employees' Retirement Board. The Plan is covered under the Commonwealth of Pennsylvania's Act 96 of 1971, as amended, commonly referred to as the County Pension Law. The County Pension law provides for the creation, maintenance and operation of this plan. A copy of the Plan's financial statements, including required supplementary information required pursuant to GASB Statement Nos. 67 and 68, may be obtained from the County Commissioner's office.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Membership of the Plan consisted of the following at January 1, 2017, the date of its latest actuarial valuation:

Retirees and beneficiaries receiving benefits	708
Terminated plan members entitled to but not yet receiving benefits	236
Active plan members	<u>1,053</u>
Total	<u><u>1,997</u></u>
Number of participating employers	<u><u>1</u></u>

Benefits Provided

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

Funding Policy and Contributions

Prior to December 31, 1987, as a condition of employment, each employee of Lackawanna County was required to contribute 7 percent of their salary to the Plan. As of January 1, 1988, each new employee is required to contribute eight percent (8 percent) of their salary to the Plan. Members in the Plan prior to January 1, 1988 may continue to contribute seven percent (7 percent) or elect the option to contribute eight percent (8 percent). The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contribution requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs are generally paid by the County's General Fund, though they may be financed through investment earnings of the retirement plan.

The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2017. The entry age normal actuarial cost method of funding was used in the valuation, which does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5 percent per year compounded annually; (b) 4.5 percent and (c) no postretirement benefit increases. The rate of return and projected salary increases includes an inflation component of 3.0 percent. The method used to determine the actuarial value of assets is market value adjusted for unrecognized gains and losses from prior years.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Deposits and Investments

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

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

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Plan's target asset allocation for the 2017 measurement period are listed in the table above.

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of Plan investment expense, was (13.38 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, 2018 net pension liability was measured at December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017, rolled forward to December 31, 2017. The components of the net pension liability of the Plan as of December 31, 2018 were as follows:

Total pension liability	\$ 230,639,310
Plan fiduciary net position	<u>175,102,346</u>
Plan net pension liability	<u>\$ 55,536,964</u>
Plan fiduciary net position as a percentage of total pension liability	<u>75.92 %</u>

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Changes in the Net Pension Liability

The changes in the County's net pension liability during the year ended December 31, 2018 are as follows:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2018	\$ 219,549,207	\$ 160,706,340	\$ 58,842,867
Changes for the year:			
Service cost	6,565,194	-	6,565,194
Interest cost	16,308,253	-	16,308,253
Changes for experience	(1,201,053)	-	(1,201,053)
Changes of assumptions	-	-	-
Contributions, employer	-	-	-
Contributions, member	-	4,468,203	(4,468,203)
Net investment income	-	20,974,590	(20,974,590)
Benefit payments, including refunds	(10,582,291)	(10,582,291)	-
Plan administrative expenses	-	(464,496)	464,496
Net changes	<u>11,090,103</u>	<u>14,396,006</u>	<u>(3,305,903)</u>
Balances at December 31, 2018	<u>\$ 230,639,310</u>	<u>\$ 175,102,346</u>	<u>\$ 55,536,964</u>

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

Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of January 1, 2017, rolled forward to December 31, 2017 using the following actuarial methods and assumptions:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	4.5%
Inflation	3.0%
Interest rate	7.5%
Asset valuation method	Building-Block method

Mortality rates were based on the RP-2013 Annuitant and Non-annuitant Mortality Tables for males and females with no projected improvement. The actuarial assumptions used in the January 1, 2017 valuation were based on past experience under the Plan and reasonable future expectations which represent the actuary's best estimate of anticipated experience under the Plan. An actuarial experience study was performed during 2016; however, no modifications to assumptions were made as a result.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Discount Rate

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

Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Plan calculated using the discount rate of 7.50 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 (6.50 percent) or 1 percent point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.5%)</u>
Net pension liability	\$ 79,424,303	\$ 55,536,963	\$ 36,147,989

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

For the year ended December 31, 2018, the County recognized pension expense of \$7,891,629. The County did not make any contributions to the Plan during 2018. At December 31, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,566,554	\$ 1,701,728
Net difference between projected and actual earnings on investments	<u>5,300,095</u>	<u>7,707,897</u>
Total	<u>\$ 6,866,649</u>	<u>\$ 9,409,625</u>

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

Year ended June 30:	
2019	\$ 832,629
2020	832,629
2021	(2,058,429)
2022	(2,149,805)

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

13. Fund Balance Classifications

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

	General Fund	Health and Human Services Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total
Non-spendable for:						
Inventory	\$ 27,820	\$ -	\$ -	\$ -	\$ -	\$ 27,820
Prepaid expenses	2,024,166	-	-	-	1,146	2,025,312
Total non-spendable	<u>\$ 2,051,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,146</u>	<u>\$ 2,053,132</u>
Restricted for:						
Grant programs	\$ -	\$ 116,050	\$ -	\$ -	\$ 4,144,908	\$ 4,260,958
Debt service	-	-	4,468,436	-	-	4,468,436
Capital projects	-	-	-	3,422,140	-	3,422,140
Total restricted	<u>\$ -</u>	<u>\$ 116,050</u>	<u>\$ 4,468,436</u>	<u>\$ 3,422,140</u>	<u>\$ 4,144,908</u>	<u>\$ 12,151,534</u>
Assigned for:						
Economic development	\$ 858,460	\$ -	\$ -	\$ -	\$ -	\$ 858,460
Program purposes	-	-	-	-	1,272,033	1,272,033
Total assigned	<u>\$ 858,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,272,033</u>	<u>\$ 2,130,493</u>

14. Deficit Fund Balances

The individual health and human service fund departments that have a net deficit balance at December 31, 2018 are the Area Agency on Aging with a deficit of \$616,413 and the Lackawanna County Commission on Drug and Alcohol Abuse with a deficit of \$32,998. Such deficits resulted from the County not funding 100 percent of the operating deficits of these activities in the current or past years and will be funded in future operating subsidy payments.

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 employee medical insurance plan. The County has limited this self-insurance liability through the purchase of catastrophic reinsurance coverage which will reimburse the County for any medical costs over \$50,000 per covered individual per year. The County believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The County has recorded an asset for payments in excess of all asserted and estimated unasserted claims amounting to approximately \$2,520,000, recorded within its General Fund other receivables at December 31, 2018. The cost of medical coverage for employees was approximately \$17,800,000 in 2018.

The County has elected to self-insure its workers' compensation risk. The County established an Internal Service Fund to account for all the transactions associated with its self-insurance. The Internal Service Fund charges the County's other funds an amount equal to its estimated annual cost. The County is responsible for payment of the first \$500,000 per claim, after which point, the County's excess claim policy (commercial insurance) covers any additional losses.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The County uses an actuary to determine the amount of claim liabilities at year-end.

Changes in the balance of claims liabilities for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 1,577,331	\$ 1,535,434
Claims incurred	339,678	809,468
Claims paid	<u>(541,139)</u>	<u>(767,571)</u>
Balance, December 31	<u>\$ 1,375,870</u>	<u>\$ 1,577,331</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.

16. Interfund Balances/Transfers

Interfund receivable and payable balances are normally settled in the following year and the balances at December 31, 2018 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 7,205,332	\$ 185,768
Health and Human Services Fund	151,938	409,423
Debt Service Fund	-	341,999
Capital Projects Fund	-	2,106,023
Non-Major Funds	54,092	1,578,745
Agency Fund	<u>-</u>	<u>2,789,404</u>
Total	<u>\$ 7,411,362</u>	<u>\$ 7,411,362</u>

The amounts due to the General Fund are generally for payroll and other operating costs initially funded by the General Fund on behalf of the other funds, which the County anticipates repaying within the next year.

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

The Capital Projects Fund owes the General Fund \$2,106,023 for reimbursement of projects costs fronted by the General Fund.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

Interfund transfers in 2018 are summarized as follows:

	Transfers In	Transfers Out
General Fund:		
Capital Projects Funds	\$ -	\$ 111,030
Non-Major Funds	-	1,483,446
Internal Service Fund	-	861,163
	<hr/>	<hr/>
Total General Fund	-	2,455,639
	<hr/>	<hr/>
Capital Projects Funds, General Fund	111,030	-
	<hr/>	<hr/>
Non-Major Funds, General Fund	1,483,446	-
	<hr/>	<hr/>
Internal Service Fund, General Fund	861,163	-
	<hr/>	<hr/>
Totals	<u>\$ 2,455,639</u>	<u>\$ 2,455,639</u>

The General Fund transferred funds to the Capital Projects Fund in the total amount of \$111,030 to fund renovations to County facilities, to the Non-Major Funds \$1,483,446 for operating subsidies of Liquid Fuels, Domestic Relations, Emergency Communications (E 9-1-1) and Community Development funds, and to the Internal Service Fund \$861,163 to fund workers compensation claims incurred by the County during the year.

Due From/To Component Units

The County has advanced \$1,188,970 to the MPSA primarily to fund MPSA's capital projects. This advance is expected to be received once MPSA receives its Commonwealth Redevelopment Assistance Capital Program Grants.

The County has advanced \$2,298,455 to the Lackawanna County Performing Arts Center Authority ("LCPACA") to fund debt service payments. In addition, the County has loaned debt proceeds to LCPACA and recorded a receivable of \$1,100,000 within its governmental activities statement of net position.

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.

County of Lackawanna, Pennsylvania

Notes to Financial Statements

December 31, 2018

18. New Accounting Pronouncements

The GASB has approved the following:

Statement No. 83, *Certain Asset Retirement Obligations*

Statement No. 84, *Fiduciary Activities*

Statement No. 87, *Leases*

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*

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

Statement No. 91, *Conduit Debt Obligations*

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.

19. Subsequent Event

In May 2019, the County issued its General Obligation Bonds, Series of 2019 in the amount of \$26,095,000 for the purposes of (1) currently refunding the County's outstanding General Obligation Notes, Series B of 2009; (2) terminate an interest rate management agreement with PNC Bank, N.A. currently hedging the Bonds; and (3) pay the costs associated with the issuance of the 2019 Bonds. The Bonds are due in varying semi-annual installments of principal and interest at rates ranging between 3.00 and 4.00 percent per annum, with final maturity scheduled for 2034.

County of Lackawanna, Pennsylvania

Schedule of Revenues, Expenditures and Changes in Fund Balances -

General and Debt Service Funds Budget And Actual - Unaudited

Year Ended December 31, 2018

(Unaudited)

	General Fund			Debt Service Fund		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	\$ 63,300,387	\$ 62,987,421	\$ (312,966)	\$ 16,158,114	\$ 16,073,476	\$ (84,638)
Payments in-lieu of taxes	311,581	290,592	(20,989)	-	-	-
Intergovernmental	19,200,392	20,423,271	1,222,879	-	-	-
Charges for services	18,922,373	22,945,927	4,023,554	322,932	1,062,629	739,697
Interest and rent	60,000	9,720	(50,280)	-	-	-
Court costs, fines and forfeitures	82,100	464,030	381,930	18,000	108,445	90,445
Contributions and other	555,397	563,770	8,373	-	-	-
Total revenues	102,432,230	107,684,731	5,252,501	16,499,046	17,244,550	745,504
Expenditures						
General government - administrative	20,992,151	20,810,450	181,701	29,810	24,500	5,310
General government - judicial	23,844,025	23,822,417	21,608	-	-	-
Public safety and corrections	37,198,794	37,266,744	(67,950)	-	-	-
Public works and enterprises	135,399	237,363	(101,964)	-	-	-
Health and human services	17,378,445	17,192,658	185,787	-	-	-
Culture and recreation	2,619,372	2,336,872	282,500	-	-	-
Community and economic development	465,343	806,174	(340,831)	-	-	-
Miscellaneous expense	787,492	680,145	107,347	-	-	-
Debt service:						
Principal	-	-	-	9,842,832	9,876,747	(33,915)
Interest	-	-	-	10,044,429	9,838,966	205,463
Total expenditures	103,421,021	103,152,823	268,198	19,917,071	19,740,213	176,858
Excess (Deficiency) of Revenues Over Expenditures	(988,791)	4,531,908	5,520,699	(3,418,025)	(2,495,663)	922,362
Other Financing Sources (Uses)						
Gain on sale of assets	1,300,000	-	(1,300,000)	-	-	-
Transfers out	(1,819,523)	(2,455,639)	(636,116)	-	-	-
Total other financing sources (uses), net	(519,523)	(2,455,639)	(1,936,116)	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	(1,508,314)	2,076,269	3,584,583	(3,418,025)	(2,495,663)	922,362
Fund Balance, Beginning	19,849,795	25,519,373	5,669,578	3,877,780	6,964,099	3,086,319
Fund Balance, Ending	\$ 18,341,481	\$ 27,595,642	\$ 9,254,161	\$ 459,755	\$ 4,468,436	\$ 4,008,681

County of Lackawanna, Pennsylvania

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios
 Year Ended December 31, 2018
 (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service cost	\$ 6,565,194	\$ 6,268,302	\$ 6,108,365	\$ 5,624,600
Interest cost	16,308,253	15,524,256	14,512,054	13,899,310
Differences between expected and actual experience	(1,201,053)	2,771,596	(1,363,174)	(509,255)
Changes in assumptions	-	-	-	-
Benefit payments, including refunds of member contributions	<u>(10,582,291)</u>	<u>(10,023,340)</u>	<u>(10,127,613)</u>	<u>(10,320,059)</u>
Net change in total pension liability	11,090,103	14,540,814	9,129,632	8,694,596
Total Pension Liability, Beginning	<u>219,549,207</u>	<u>205,008,393</u>	<u>195,878,761</u>	<u>187,184,165</u>
Total Pension Liability, Ending (a)	<u>\$ 230,639,310</u>	<u>\$ 219,549,207</u>	<u>\$ 205,008,393</u>	<u>\$ 195,878,761</u>
Plan Fiduciary Net Position				
Employer contributions	\$ -	\$ 600,000	\$ 600,000	\$ 500,000
Employee contributions	4,468,203	4,198,386	4,238,646	3,749,484
Other contributions	-	-	-	-
Net investment income	20,974,590	11,997,784	(1,350,579)	10,223,630
Benefits payments, including refunds of member contributions	(10,582,291)	(10,023,340)	(10,127,613)	(10,320,059)
Administration	(464,495)	(448,899)	(465,209)	(459,897)
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	14,396,007	6,323,931	(7,104,755)	3,693,158
Plan Fiduciary Net Position, Beginning	<u>160,706,340</u>	<u>154,382,409</u>	<u>161,487,164</u>	<u>157,794,006</u>
Plan Fiduciary Net Position, Ending (b)	<u>\$ 175,102,347</u>	<u>\$ 160,706,340</u>	<u>\$ 154,382,409</u>	<u>\$ 161,487,164</u>
Net pension liability, ending (a) - (b)	<u>\$ 55,536,963</u>	<u>\$ 58,842,867</u>	<u>\$ 50,625,984</u>	<u>\$ 34,391,597</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>75.92%</u>	<u>73.20%</u>	<u>75.31%</u>	<u>82.44%</u>
Covered-Employee Payroll	<u>\$ 51,107,795</u>	<u>\$ 49,952,306</u>	<u>\$ 45,821,177</u>	<u>\$ 46,190,968</u>
Net pension liability as a percentage of covered-employee payroll	<u>108.67%</u>	<u>117.80%</u>	<u>110.49%</u>	<u>74.46%</u>

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

County of Lackawanna, Pennsylvania

Required Supplementary Information
 Schedule of Employer Contributions
 Year Ended December 31, 2018
 (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 3,577,528	\$ 3,348,238	\$ 3,233,618	\$ 2,483,175	\$ 2,478,622	\$ 4,139,516	\$ 4,089,804	\$ 3,967,756	\$ 4,801,039	\$ 3,712,594
Contributions in relation to the actuarially determined contribution	-	-	600,000	500,000	500,000	500,000	500,000	-	65,733	-
Contribution deficiency (excess)	<u>\$ 3,577,528</u>	<u>\$ 3,348,238</u>	<u>\$ 2,633,618</u>	<u>\$ 1,983,175</u>	<u>\$ 1,978,622</u>	<u>\$ 3,639,516</u>	<u>\$ 3,589,804</u>	<u>\$ 3,967,756</u>	<u>\$ 4,735,306</u>	<u>\$ 3,712,594</u>
Covered-employee payroll	\$ 53,609,189	\$ 51,107,795	\$ 49,952,306	\$ 46,190,968						
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	1.20%	1.08%						

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair Market Value
Inflation	3 percent
Salary increases	4.5 percent average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expenses, including inflation
Retirement age	Age 60 or 55 with 20 years of service
Mortality	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

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