

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION/FUND BALANCES (continued)

Nonspendable fund balance reports resources cannot be spent because of their form, or due to legal or contractual requirements. Committed fund balance reports resources with self-imposed limitation approved by the Commissioners of the County to the end of the period. Formal action is required to remove or modify a constraint reflected in the committed fund balance. There was one commitment for future debt service payments of \$2 million as of December 31, 2016. Assigned fund balance records the portion of fund balance that reflects the Commissioners' intended use of resources. There was assignment of approximately \$3.1 million related to funds to be used for operations of the prison. Assigned fund balance can be established by either the Commissioners or senior management. Unlike committed fund balance, formal action is not required to impose, remove, or modify assigned fund balance. Capital projects had a negative fund balance of \$6.2 million that will be funded with future debt offerings.

ACCOUNTING ESTIMATES

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

2. BUDGETARY DATA

Formal budgetary accounting is employed as management control for the General Fund, certain Special Revenue Funds, and the Debt Service Fund of the County. Annual operating budgets are adopted each year through the passage of an annual budget ordinance and accounting principles generally accepted in the United States of America are used to complete the budget. The County of Northumberland follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) During August and September, the department heads use current financial status reports to develop financial projections for their programs for the ensuing year. These financial projections are reviewed with the budget staff.
- (2) The Finance Office reviews and consolidates submitted financial projections and forwards the projections to the Commissioners' Office.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

2. BUDGETARY DATA (continued)

- (3) Upon consolidation of the department and agency expenditure projections, the Commissioners' Office must ascertain the most viable method of financing them.
- (4) Subsequently, the Commissioners' Office assembles the preliminary projections of revenues and expenditures into a final budget incorporating any revisions or adjustments resulting from the aforementioned County Commissioners' review.
- (5) By early December, the final budget is presented to the County Commissioners. Pursuant to budgetary requirements, as set forth in the County Code, public notice is given that the proposed budget is available for inspection for a period of 20 days.
- (6) After the 20-day inspection period but no later than December 31, the County Commissioners adopt the final budget by enacting an appropriate ordinance.
- (7) As required by the Commonwealth of Pennsylvania County Code, the proposed budget is made available for public inspection for at least 20 days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the County Commissioners adopt the appropriation measures required to put the budget into effect and fix the rate of taxation. Within 15 days subsequent to the legal adoption of the budget, the County Commissioners file a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania.

The Commissioners may at any time, by resolution, make supplemental appropriations for any lawful purpose from any funds on hand or estimated to be received within the fiscal year and not otherwise appropriated, including the proceeds of any borrowing now or hereafter authorized by law. The Commissioners may authorize the transfer of any unencumbered balance of any appropriation item or any portion thereof.

LEVEL OF CONTROL

The County is legally required to maintain budgetary controls at the major function level. In practice, the County maintains budgetary control at the fund level.

LAPSING OF APPROPRIATIONS

Unexpended appropriations lapse at year-end.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

2. BUDGETARY DATA (continued)

MANAGEMENT AMENDMENT AUTHORITY

During the course of the year, departmental needs may change, emergencies may occur, or additional revenue sources may arise. As a result, funds are occasionally transferred between line items of a department's budget or additional revenue may need to be on a line item basis during the year and are approved by the County Commissioners.

Financial analysis is provided monthly to management showing spending levels in comparison to the current budget. The budget is also reviewed by management with operating departments.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Under Section 1706 of the County Code of the Commonwealth of Pennsylvania, the County is authorized to invest in the following:

- A. United States Treasury Bill
- B. Short-term obligations of the United States government or its agencies or instrumentalities.
- C. 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 ("Commonwealth") and insured by the Federal Deposit Insurance Corporation ("FDIC")
- D. 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, or of any agencies instrumentalities backed by the full faith and credit of the Commonwealth or of any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. The County may also invest in shares of a registered investment company under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.
- E. Certificates of deposit purchased from institutions having their principal place of business in or outside the Commonwealth, which are insured by federal agencies. For any amounts in excess of the insure maximum, such as deposits, shall be collateralized by a pledge or assignment of assets pursuant to Act No, 72 of the General Assembly. Certificates of deposit may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets net of its liabilities.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

F. “Commercial paper” and “prime commercial paper” meeting certain requirements.

Pension or retirement funds may be invested by the County according to the “Prudent Man Rule” as defined by Decedents, Estates, and Fiduciaries Act, 20 PA C.S.CH.73, which is referred to in the County Code.

It is the policy of the County to invest funds under the County’s control principally in certificates of deposit, repurchase agreements, U.S. government securities, and money market mutual funds. Funds under the County’s direct control exclude monies of the Retirement Trust Fund.

GAAP requires disclosures related to the following deposit and investment risks, custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk, the following is a description of the County’s deposit and investment risks.

DEPOSITS

Custodial credit risk- Is the risk that in the event of a bank failure, the County will not recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The County does not have a formal deposit policy for custodial credit risk. As of December 31, 2016, the County’s total book and bank balance was approximately \$9.9 million and \$10.5 million, respectively. Of this amount, approximately \$5.1 million was insured by the FDIC. The remaining bank deposits of approximately \$5.4 million were exposed to custodial credit risk, since the deposits were collateralized with securities held by pledging financial institutions, but not in the County’s name. The discretely presented component unit total cash balance of approximately \$1.4 million was covered by federal depository insurance or by collateral held by the component units agent.

INVESTMENTS-PENSION TRUST FUND

Assets in the pension trust fund are stated at fair value, The Employees Pension Board has adopted investment guidelines that summarize the investment philosophy of the Board, as follows:

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of December 31, 2016, all of the County’s Pension trust funds investments were held in Wells Fargo, and were insured by the Securities Investor Protection Corporation (“SIPC”) up to \$500,000.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

INVESTMENTS-PENSION TRUST FUND (continued)

Credit Risk- Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized rating organization. The County's investment policy protects against credit risk by limiting investments to the following:

- Fixed income investments shall be high quality, marketable securities with a preponderance of the investment in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade corporate issues including convertibles.
- The overall rating of the fixed income assets shall be at least "A" according to either Moody's or Standard and Poor's rating system. In cases where the yield spread adequately compensates for additional risk, BAA or BBB ratings can be purchased up to a maximum of 15% of total market value of fixed income securities.

As of December 31, 2016, the County's credit quality distribution of securities as a percentage of total investments is as follows:

<u>Security Type</u>	<u>Credit Rating</u>	<u>% of portfolio</u>
Managed equities	N/A	78%
Corporate bonds	BBB-AAA	9%
U.S. government obligations	AAA	5%
Cash and cash equivalents	N/A	7%

Concentration of Credit Risk- Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issue, as follows: for equity securities, not more than 5% of the total stock portfolio (valued at market) may be invested in the common stock of any one corporation; ownership of the shares of one company shall not exceed two (2%) percent of those outstanding, and; not more than 25% of stock (valued at market) may be held in any one industry category. For fixed income securities, any one issue shall not exceed 5% of the total bond portfolio at time of purchase (this rule does not apply to issues of the U.S. Treasury or other federal agencies). As of December 31, 2016, there were no individual investments that exceeded 5% of the total portfolio's market value.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)

INVESTMENTS-PENSION TRUST FUND (continued)

Interest Rate Risk- Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. The County does not have a specific policy with regard to interest rate risk.

Information about the sensitivity of the fair values of the County's investments to market interest rate fluctuations is provided by the following table which provides a distribution of the County's investments by maturity at December 31, 2016:

<u>Investment</u>	<u>Matures</u>	<u>Fair Value</u>
Managed equities	N/A	\$ 61,141,353
Corporate bonds	Average of 7 years	7,398,689
U.S. government obligations	Average of 13 years	4,075,606
Cash and cash equivalents	N/A	5,304,534
		<u>\$ 77,920,182</u>
Reported in the financial statements as:		
Cash and cash equivalents		\$ 5,304,534
Investments		72,615,648
		<u>\$ 77,920,182</u>

Foreign Currency Risk- Foreign currency risk is the risk that changes in the foreign exchange rate will adversely affect the fair value of an investment. The County is not invested in any foreign securities as of December 31, 2016.

INVESTMENTS-INTERNAL SERVICE FUNDS

The Internal Service Fund is comprised of the County's Workers Compensation Fund. The Workers Compensation Fund does not have an investment policy with regard to custodial credit risk, credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. As of December 31, 2016, investments held for the County's Government Obligations included only a money market fund of \$605,753.

The County categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investments held by the County are considered Level 1 and are valued using prices quoted in active markets for those securities.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

4. PROPERTY TAXES

REAL ESTATE PROPERTY TAXES

Real estate property taxes attach as an enforceable lien on property on January 1, based on assessed value listed as of the prior December 31 for all real property located in the County. Assessed values are established by the County Assessment Board at 100% of calculated market value. Taxes are billed on or about March 1, payable under the following terms: 2% discount, March 1 through April 30; face amount, May 1 through June 30, and a 10% penalty from July 1 through December 31. The County bills its own property taxes, which are collected by elected tax collectors. Uncollected real estate property taxes levied for 2016 are recorded as receivables, net of estimated uncollectible amounting to \$261,846 and \$13,436, for debt service purposes as of December 31, 2016. Net receivables estimated to be collectible subsequent to March 31 are reflected in unearned revenue. Prior years' levies are recorded using these same principles, and remaining receivables are annually reevaluated as to collectability.

The County is permitted by the County Code to levy real estate taxes up to 25 mills on every dollar of adjusted valuation for General County purposes, exclusive of the requirements for the payment of interest and principal on funded debt. The County levy for 2016 was 21.033 mills for general government purposes and 5.835 mills for debt services purposes.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Notes to the Financial Statements
December 31, 2016**

5. CAPITAL ASSETS

Capital assets of the governmental activities for the year ended December 31, 2016 were as follows:

	<u>Balance, January 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance, December 31, 2016</u>
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 697,974	\$ -	\$ -	\$ -	\$ 697,974
Construction in progress	3,257,490	8,779,685	-	-	12,037,175
Total capital assets, not being depreciated	<u>3,955,464</u>	<u>8,779,685</u>	<u>-</u>	<u>-</u>	<u>12,735,149</u>
Capital assets, being depreciated					
Buildings and Improvements	28,970,073	5,500	6,384,191	-	22,591,382
Infrastructure	11,279,520	470,701	-	-	11,750,221
Machinery, Equipment, and Vehicles	<u>18,064,390</u>	<u>2,101,125</u>	<u>-</u>	<u>-</u>	<u>20,165,515</u>
Total capital assets, being depreciated	<u>58,313,983</u>	<u>2,577,326</u>	<u>6,384,191</u>	<u>-</u>	<u>54,507,118</u>
Less: Accumulated Depreciation					
Buildings and Improvements	(12,377,943)	(1,537,918)	-	-	(13,915,861)
Infrastructure	(4,405,206)	(287,872)	-	-	(4,693,078)
Machinery, Equipment, and Vehicles	<u>(7,791,936)</u>	<u>(1,073,124)</u>	<u>-</u>	<u>-</u>	<u>(8,865,060)</u>
Total accumulated depreciation	<u>(24,575,085)</u>	<u>(2,898,914)</u>	<u>-</u>	<u>-</u>	<u>(27,473,999)</u>
Total capital assets being depreciated, net	<u>33,738,898</u>	<u>(321,588)</u>	<u>6,384,191</u>	<u>-</u>	<u>27,033,119</u>
Governmental activities, net	<u>\$ 37,694,362</u>	<u>\$ 8,458,097</u>	<u>\$ 6,384,191</u>	<u>\$ -</u>	<u>\$ 39,768,268</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 1,228,817
Judicial	278,899
Public Safety	390,189
Human Services	583,861
Public works	<u>417,148</u>
Total depreciation expense, governmental activities	<u>\$ 2,898,914</u>

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Notes to the Financial Statements
December 31, 2016**

6. LONG-TERM LIABILITIES

As of December 31, 2016, the County's long term liabilities consisted of the following:

Governmental activities	Balance, January 1, 2016	Additions	Retirements	Balance, December 31, 2016	Current Portion
Long term debt	\$ 30,927,039	\$ 3,437,993	\$ 2,860,187	\$ 31,504,845	\$ 2,898,998
Capital lease payable	6,384,191	-	6,384,191	-	-
Compensated absences	1,121,576	37,488	-	1,159,064	-
Net pension liability	9,341,824	-	731,177	8,610,647	-
Net OPEB obligation	880,243	478,248	481,722	876,769	-
Claims and judgements	125,941	167,852	-	293,793	-
Total	\$ 48,780,814	\$ 4,121,581	\$ 10,457,277	\$ 42,445,118	\$ 2,898,998

As of December 31, 2016, the County's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance as of 1/1/16	Additions	Retirements	Balance as of 12/31/16	Current Portion
2010 General Obligation Note	2.0 - 3.70%	3,725,000	\$ 2,810,000	\$ -	\$ (280,000)	\$ 2,530,000	\$ 290,000
2011 General Obligation Note	3.21%	4,260,000	2,310,000	-	(555,000)	1,755,000	470,000
2011 General Obligation Note, Series A	2.35%	3,900,000	2,115,000	-	(510,000)	1,605,000	520,000
2012 Guaranteed Lease Revenue Note	2.16%	5,200,000	3,980,000	-	(630,000)	3,350,000	640,000
2012 General Obligation Note	3.39%	1,800,000	1,770,000	-	(15,000)	1,755,000	20,000
2013 General Obligation Note	3.15%	7,355,000	7,210,000	-	(95,000)	7,115,000	90,000
2015 General Obligation Note	2.77%	10,000,000	2,291,640	3,437,993	(75,000)	5,654,633	185,000
2015 Guaranteed Lease Revenue Note	4.07-6.5%	7,405,399	7,405,399	-	(501,187)	6,904,212	480,998
General Obligation Bond, Series of 2015	1.90%	1,035,000	1,035,000	-	(199,000)	836,000	203,000
			\$ 30,927,039	\$ 3,437,993	\$ (2,860,187)	\$ 31,504,845	\$ 2,898,998

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

6. LONG-TERM LIABILITIES (continued)

BONDS AND NOTES PAYABLE

In 2010, the County issued \$3,725,000, of General Obligation Notes bearing interest at 2.00% to 3.70% per annum, maturing in 2021. The proceeds of these notes were used to refinance the 2002 Authority Bonds Series A and to pay the costs of issuance.

In 2011, the County issued \$8,160,000, of General Obligation Notes bearing interest at 2.35% to 3.21% per annum, maturing in 2019. The proceeds of these notes were used to refinance the 2001 General Obligation Note, Series B, 2002 Guaranteed Authority Bonds, Series B, General Obligation Note, Series of 2007, and the 2008 General Obligation Note, Series A.

In 2012, the County issued \$5,200,000, of Guaranteed Lease Revenue Notes bearing interest at 2.16% per annum, maturing in 2021. The proceeds of these notes were used for the Authority to purchase a building from the County.

In 2012, the County issued \$1,800,000, of General Obligation Notes bearing interest at 3.39% per annum, maturing in 2025. The proceeds of these notes were used for general capital asset purchases.

In 2013, the County issued \$7,355,000 of General Obligation Notes bearing interest at 3.15% per annum maturing in 2025. The proceeds of these notes were used for general capital asset purchases.

In 2015, the County issued \$10,000,000 of General Obligation Notes bearing interest at 2.77% per annum through 2025 then becomes variable and can be no more than 5% per annum thereafter, maturing in 2035. The proceeds of these notes were used for general capital asset purchases. The County issued \$1,035,000 of General Obligation Bonds bearing interest at 1.9% per annum maturing in 2020. The proceeds of these bonds were used to partially pay off the 2011 General Obligation Notes. Additionally, the County issued \$7,405,399 of Guaranteed Lease Revenue Note, Series 2015 bearing interest at 4.07% per month through 2022 and reset thereafter through 2028 at a maximum rate of 6.5%.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

6. LONG-TERM LIABILITIES (continued)

An analysis of debt service requirements to maturity on these obligations is as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 2,898,998	\$ 1,136,296	\$ 4,035,294
2018	2,986,274	1,053,430	4,039,704
2019	3,069,487	966,961	4,036,448
2020	2,230,194	877,488	3,107,682
2021	3,707,802	810,586	4,518,388
2022-2026	13,525,883	2,750,514	16,276,397
2027-2031	4,361,573	1,303,923	5,665,496
2032-2035	2,995,000	383,500	3,378,500
Less: undrawn proceeds	<u>(4,270,366)</u>	<u>-</u>	<u>(4,270,366)</u>
Totals	<u>\$ 31,504,845</u>	<u>\$ 9,282,698</u>	<u>\$ 40,787,543</u>

7. COMPENSATED ABSENCES

VACATION PAY

Time accrues at various rates based on length of service. Employees are encouraged to utilize earned vacation time by December 31 of each period; however, current practice allows for the carryover of 55 unused vacation days to the subsequent calendar year. Time carried over in this manner is considered vested.

SICK PAY

Employees earn 1 1/4 sick days for each month of service or 15 days per year. Current practice allows for the accumulation of unused sick days to be paid at retirement if the employee meets either of the applicable vesting requirements: Age 55 with 20 or more years of credited service to the County or Age 60

Applicable GASB pronouncements require accrual of sick and vacation pay that meet certain specific conditions. The County has determined that such conditions apply to vested vacation pay and accumulated sick pay of Governmental Funds and the Proprietary Fund. The County has accrued a liability for vacation and sick pay in financial statements at the fund level for the Proprietary Fund and in the Governmental and Business Type Activities in government-wide financial statements.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

8. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances consist of the following at December 31, 2016:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental funds		
General Fund	\$ 9,576,167	\$ 5,253,353
Special revenue/non-major	5,258,363	9,581,177
	<hr/>	<hr/>
Total	<u>\$ 14,834,530</u>	<u>\$ 14,834,530</u>

The County utilizes a pooled operating fund to enhance investment return; therefore, interfund receivables and payables are recorded to recognize amounts held by the General Fund in the pooled amount on behalf of other funds. In addition, the General Fund has paid expenses on behalf of other funds; therefore, a corresponding interfund receivable and payable has been recorded.

9. INTERFUND OPERATING TRANSFERS

Interfund transfers are executed as a result of the requirements for the General Fund to "match" a portion of the expenditures or expenses of other funds. Interfund operating transfers for such purposes are as follows:

	<u>Transfers From Other Funds</u>	<u>Transfers to Other Funds</u>
Governmental funds		
General Fund	\$ 29,779	\$ 4,260,171
Special revenue/non-major	7,763,164	3,532,772
	<hr/>	<hr/>
Total	<u>\$ 7,792,943</u>	<u>\$ 7,792,943</u>

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

10. RISK MANAGEMENT

The County is exposed to risk of loss related to self-insurance activities for workers' compensation, medical, and prescription drug claims. The County records the liability for the risk associated with the County's self-insurance activities in the Internal Service Fund.

WORKERS' COMPENSATION

The County self-insures its Workers' Compensation claims and has established a trust account (the "Workers' Compensation Trust") with a local bank to fund its workers' compensation liabilities. Under this program, the Workers' Compensation Trust provides coverage for up to a maximum of \$400,000. The County purchases commercial insurance for claims in excess of coverage provided by the Fund. There have been no changes in insurance coverages, retention limits or excess loss policies from the prior year. Settled claims have not exceeded this commercial coverage since inception.

The County establishes claims liabilities for its self-insured workers' compensation based on the requirements of GASB No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to revenue in the periods in which they are made. Such claims are not discounted.

The following summary provides aggregate information on self-insurance liabilities, incurred claims, and payments during the years ended December 31, 2016 and 2015, and reported self-insurance liabilities as of December 31, 2016 and 2015.

	<u>Liability, beginning of year</u>	<u>Incurred claims and changes in estimate</u>	<u>Benefit payments</u>	<u>Liability, End of year</u>
2016	\$ 125,941	\$ 594,895	\$ (427,043)	\$ 293,793
2015	202,943	183,339	(260,341)	125,941

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

11. EMPLOYEES RETIREMENT PLAN

The Employees' Retirement Trust Fund Plan (the "Plan") is a contributory defined benefit single employer retirement plan covering all County employees, except those hired on a part-time basis. The Plan is included in the accompanying financial statements of the County as a pension trust fund. The financial statements of the Retirement Trust Fund are prepared on the accrual basis of accounting. Plan members and employer contributions to the Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

As of December 31, 2016, the date of the latest valuation, employees covered by the Plan consisted of the following:

Active plan members	462
Retirees and beneficiaries currently receiving benefits	709
Terminated employees entitled to benefits	<u>98</u>
Total	<u><u>1,269</u></u>

INVESTMENTS

All investments of the pension trust fund are reported at fair value. Securities traded on a national level are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of real estate assets.

CONTRIBUTIONS

Employees are required to contribute a portion of their salaries (5% of earnings in 2016) to the Plan and employees can elect to contribute up to 15% of their salaries. Per Act 96 of 1971, contribution requirements of the Plan members and the County may be amended by the General Assembly of the Commonwealth of Pennsylvania. Interest is credited each year in an amount allowed by the County Retirement Board to each member's account. Administrative costs of the Plan are financed through investment earnings. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the aggregate actuarial cost funding method.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

11. EMPLOYEES RETIREMENT PLAN (continued)

The annual required contribution was determined based on the most recent annual actuarial valuation dated January 1, 2016. The entry age actuarial cost method of funding was used in the valuation, which does not identify and separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.50% per year compounded annually; (b) projected salary increases of 3.50% per annum; and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component based on 3%. The method used to determine the actuarial value of assets is a five- year smoothed market.

INVESTMENTS

The table below summarizes the target asset class assumed rates of return:

<u>Investment Type</u>	<u>Target Allocation</u>	<u>Assumed Rate of Return</u>
Domestic Equity	40-80%	5.40%
International Equity	40-80%	5.50%
Fixed Income	20-60%	1.30%
Real estate	0-10%	4.50%
Cash	0-5%	0.00%

ACTUARIAL ASSUMPTIONS

The Plan had the following actuary assumptions and methods:

Actuarial cost method	Entry Age Normal
Amortization Method	Level Dollar
Mortality	RP-2013 Annuitant and Non-Annuitant Tables for Males and Females
Asset Valuation Method	Fair Value

Actuarial Assumptions

Investment rate of return	7.50%
Projected salary increases	3.50%
Inflation	3.00%

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Notes to the Financial Statements
December 31, 2016**

11. EMPLOYEES RETIREMENT PLAN (continued)

NET PENSION LIABILITY

The net pension liability is equal to the total pension liability minus the net position of the plan. The result as of December 31, 2016 was as follows:

Total pension liability	\$ 86,962,265
Net position	78,351,618
Net pension liability	<u>\$ 8,610,647</u>

Net position as a percentage of total pension liability	90.1%
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SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The sensitivity of the net pension liability of the plan to a 1% change to the discount rate is as follows:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Net pension liability	\$ 19,784,502	\$ 8,610,647	\$ 3,976,624

DEFERRED OUTFLOWS AND INFLOWS RELATED TO PENSIONS

For the 2016 measurement period, the County recognized pension expense of approximately \$4.7 million and 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	\$ -	\$ 1,029,678
Net difference between projected and actual earnings on pension plan investments	3,326,807	-
	<u>\$ 3,326,807</u>	<u>\$ 1,029,678</u>

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

11. EMPLOYEES RETIREMENT PLAN (continued)

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

<u>Year Ended:</u>		
2017	\$	596,179
2018		596,179
2019		1,114,164
2020		<u>(9,393)</u>
	\$	<u><u>2,297,129</u></u>

12. OTHER POSTEMPLOYMENT BENEFITS

PLAN DESCRIPTION

The County's Retiree Health and Welfare Benefit Plan (the "Plan") is a single- employer defined benefit plan administered by the County. The Plan provides postemployment benefits to eligible retirees. The County pays eligible retirees \$100 for each year of service rendered to the County (minimum of 20 years) to offset the employees cost of purchasing health insurance after retirement. The Plan is unfunded and no financial report is prepared. The Plan is authorized and under the control, maintenance and operation of the County Commissioners. During the year ended December 31, 2012, the Plan was amended to make non-union employees hired after June 26, 2012 no longer eligible to participate in the Plan.

FUNDING POLICY

Plan members do not contribute to the plan, the County pays 100% of the cost of coverage for retired covered employees. The required contribution is based on pay- as-you-go financing requirements. The County Commissioners have the authority to amend the plan including changing the obligations of the plan members and the County to contribute to the plan.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Notes to the Financial Statements
December 31, 2016**

12. OTHER POSTEMPLOYMENT BENEFITS (continued)

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The County's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 493,949
Interest on net OPEB obligation	35,210
Adjustment to annual required contribution	<u>(50,911)</u>
Annual OPEB cost	478,248
Contributions made	<u>481,722</u>
Decrease in net OPEB obligation	(3,474)
Net OPEB obligation, beginning of year	<u>880,243</u>
Net OPEB obligation, end of year	<u><u>\$ 876,769</u></u>

The net OPEB obligation is recorded as an expense within the accompanying statement of activities within the general government function in the amount of \$3,474.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Notes to the Financial Statements
December 31, 2016**

12. OTHER POSTEMPLOYMENT BENEFITS (continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2016 were as follows:

<u>Years Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 478,248	100.7%	\$ 876,769
2015	501,585	94.8%	880,243
2014	503,041	93.8%	853,941

FUNDED STATUS AND FUNDING PROGRESS

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Total Unfunded Actuarial Liability (asset) (c)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Annual Covered Payroll (d)</u>	<u>Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)</u>
1/1/2016	\$ -	\$ 7,085,002	\$ 7,085,002	0.0%	\$ 16,619,097	42.6%
1/1/2015	-	6,965,175	6,965,175	0.0%	17,280,652	40.3%
1/1/2014	-	7,056,624	7,056,624	0.0%	17,243,020	40.9%

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

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

12. OTHER POSTEMPLOYMENT BENEFITS (continued)

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the January 1, 2016 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% discount rate. The Unfunded Actuarial Accrued Liability is being amortized using the level dollar open method of projected payroll. The RP 2013 Annuitant and Non-annuitant mortality tables were used. The remaining amortization period at January 1, 2016 was 30 years.

13. COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, there are various claims and suits pending against the County and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the County's financial position as of December 31, 2016.

GRANTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Notes to the Financial Statements December 31, 2016

14. PENDING ACCOUNTING PRINCIPLES

The County implemented GASB 72, Fair Value, GASB 76 Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and GASB 77, Tax Abatement during the year ended December 31, 2016 with no material effect to the financial statements.

As of the year ended June 30, 2017, GASB issued GASB Statement No. 74 entitled, Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans, GASB Statement No. 75 entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB Statement No. 81 Irrevocable Split-Interest Agreements; GASB Statement No. 84, Fiduciary Activities, GASB Statement No. 85, Omnibus 2017, and GASB Statement No. 87, Leases.

The County will be analyzing the effects of these pronouncements and plans to adopt them by their respective effective dates.

15. RECLASSIFICATIONS

The County reclassified certain beginning balances included within the footnotes to the financial statements to comply with current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Required Supplementary Information
December 31, 2016**

Schedule of Net Pension Liability

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 1,673,926	\$ 1,496,744	\$ 651,285
Interest	6,086,746	6,120,383	5,920,055
Changes in benefit terms	1,404,709	-	2,942,480
Differences between expected and actual experience	(1,568,646)	30,074	450,973
Benefit Payments, including refunds of member contributions	(7,383,770)	(6,054,180)	(6,072,799)
Net change in total pension liability	<u>212,965</u>	<u>1,593,021</u>	<u>3,891,994</u>
Total pension liability - beginning	<u>86,749,300</u>	<u>85,156,279</u>	<u>81,264,285</u>
Total pension liability - ending (a)	<u>\$ 86,962,265</u>	<u>\$ 86,749,300</u>	<u>\$ 85,156,279</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 1,685,928	\$ 1,111,373	\$ 1,135,549
Contributions - Member	1,063,212	1,127,652	1,060,075
Net investment income	5,678,272	323,884	5,884,333
Benefit payments, including refunds of member contributions	(7,383,770)	(6,054,180)	(6,072,799)
Administrative expense	(99,500)	(103,722)	(58,546)
Net change in plan fiduciary net position	<u>944,142</u>	<u>(3,594,993)</u>	<u>1,948,612</u>
Plan fiduciary net position - beginning	<u>77,407,476</u>	<u>81,002,469</u>	<u>79,053,857</u>
Plan fiduciary net position - ending (b)	<u>\$ 78,351,618</u>	<u>\$ 77,407,476</u>	<u>\$ 81,002,469</u>
Net Pension Liability- ending (a)-(b)	<u>\$ 8,610,647</u>	<u>\$ 9,341,824</u>	<u>\$ 4,153,810</u>
Plan fiduciary net position as a percentage of total pension liability	90.10%	89.23%	95.12%
Covered employee payroll	\$ 16,087,224	\$ 17,280,652	\$ 17,243,020
Net liability as a percentage of covered payroll	53.52%	54.06%	24.09%
Annual money-weighted rate of return, net of investment expense	8.31%	0.37%	7.35%

Notes to schedule:

This information is not available for prior years.

The accompanying notes are an integral part of this schedule.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

Required Supplementary Information December 31, 2016

Schedule of Pension Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 1,685,928	\$ 1,111,373	\$ 1,135,549
Contributions in Relation to the Actuarially Determined Contribution	<u>1,685,928</u>	<u>1,111,373</u>	<u>1,135,549</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 16,087,224	\$ 17,280,652	\$ 17,243,020
Contributions as a Percentage of Covered Employee Payroll	10.5%	6.6%	6.6%
Annual money-weighted rate of return, net of investment expense	8.31%	0.37%	7.35%

Notes to schedule:

Valuation Date: January 1, 2016 January 1, 2015 January 1, 2014
prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date:	
Actuarial Cost Method:	Entry age
Amortization Method:	Level dollar
Remaining Amortization Period:	25 years
Asset Valuation Method:	Fair-market value
Inflation:	3.00%
Salary Increases:	3.5% average, including inflation
Investment Rate of Return:	7.5%, net of pension plan investment expense, including inflation
Retirement Age:	Age 60 or 55 with 20 years' experience
Mortality:	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

* This information is not available for prior years.

The accompanying notes are an integral part of this schedule.

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Required Supplementary Information
December 31, 2016**

**Retiree Health and Welfare Benefit Plan
Schedule of Funding Progress
2014, 2015, 2016**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (asset) (c)	Funded Ratio (a)/(b)	Annual Covered Payroll (d)	Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)
1/1/2016	\$ -	\$ 7,085,002	\$ 7,085,002	0.0%	\$ 16,619,097	42.6%
1/1/2015	-	6,965,175	6,965,175	0.0%	17,280,652	40.3%
1/1/2014	-	7,056,624	7,056,624	0.0%	17,243,020	40.9%

**Retiree Health and Welfare Benefit Plan
Schedule of Employer Contributions
2014, 2015, 2016**

Years Ended December 31,	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 478,248	100.7%	\$ 876,769
2015	501,585	94.8%	880,243
2014	503,041	93.8%	853,941

The accompanying notes are an integral part of this schedule.

COMBINING AND INDIVIDUAL FUND STATEMENTS

COUNTY OF NORTHUMBERLAND, PENNSYLVANIA

**Schedule of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
Children and Youth
For the Year Ended December 31, 2016
(Unaudited) Budgeted Amounts**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Intergovernmental	\$ 8,546,143	\$ 8,547,743	\$ 7,953,525	\$ (594,218)
Charges for services	352,129	352,129	357,195	5,066
Total revenues	<u>8,898,272</u>	<u>8,899,872</u>	<u>8,310,720</u>	<u>(589,152)</u>
EXPENDITURES,				
Current,				
Human services	<u>10,485,036</u>	<u>10,486,636</u>	<u>9,898,120</u>	<u>(588,516)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,586,764)</u>	<u>(1,586,764)</u>	<u>(1,587,400)</u>	<u>(636)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,586,764	1,586,764	1,587,400	636
Transfers out	-	-	-	-
Total other financing sources and uses	<u>1,586,764</u>	<u>1,586,764</u>	<u>1,587,400</u>	<u>636</u>
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, Beginning	-	-	-	-
FUND BALANCES, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.