

*County of Lehigh,
Pennsylvania*

December 31, 2011

*Financial Statements
and Independent Auditors' Report*

County of Lehigh
Year Ended December 31, 2011

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
County of Lehigh
Allentown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Lehigh as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Lehigh's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Lehigh, as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in 2011 the County of Lehigh adopted the provisions of Governmental Accounting Standard Board's Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definition*," and No. 59, "*Financial Instruments Omnibus*."

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, on our consideration of the County of Lehigh'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Harrisburg	Lehigh Valley	Philadelphia	Pittsburgh
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

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Board of Commissioners
County of Lehigh
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 45 through 52 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 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.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Allentown, Pennsylvania
June 27, 2012

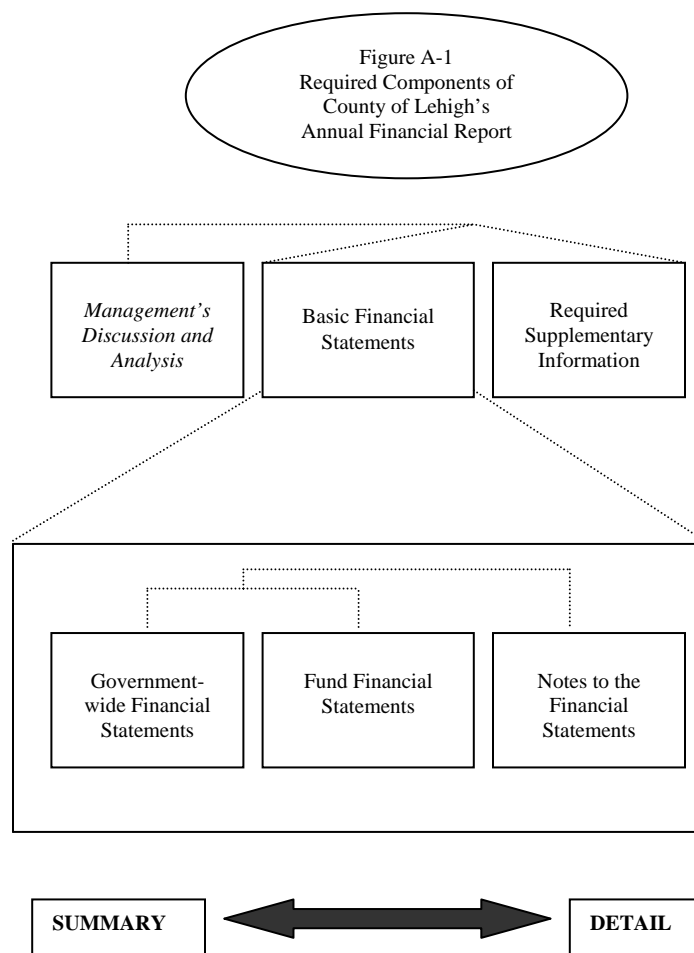
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of Lehigh's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2011. Please read it in conjunction with the County's financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the County.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the County's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the County government, reporting the County's operations in more detail than the government-wide statements.
 - The governmental fund statements tell how general governmental services were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the Cedar View Apartments.
 - Fiduciary fund statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, such as the Employees' Retirement Fund.



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of County of Lehigh’s Government-wide and Fund Financial Statements

	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Fund Statements Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire County Government (except fiduciary funds)	The activities of the County that are not proprietary or fiduciary, such as general governmental operations, courts, human services and public works	Activities the County operates similar to private businesses, such as Cedar View Apartments	Instances in which the County is the trustee or agent for someone else’s resources, such as the retirement plan for County employees
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of net assets * Statement of revenues, expenses, and changes in net assets * Statement of cash flow	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the County’s *net assets* and how they have changed. Net assets - the difference between the County’s assets and liabilities – is a way to measure the County’s financial health, *or position*. Over time, increases or decreases in the County’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the County you need to consider additional nonfinancial factors such as changes in the County’s property tax base and the anticipated level of funding from the federal and state governments.

Government-wide financial statements display information about the reporting government as a whole, except for fiduciary activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The *governmental activities* include most of the County’s basic services, such as operation of general government, human services, corrections, and court system.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant *funds* - not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond indentures.
- The County administration establishes other funds to control and manage money for particular purposes (like Record Improvement Fee collections) or to show that it is properly using certain taxes and grants (like the Hotel Room Rental Tax and grants from the federal and state governments).

The County has three kinds of funds:

- *Governmental funds* - Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other *financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages of the governmental funds statements, that explains the relationship (or difference) between them.
- *Proprietary funds* - Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information. We use an *internal service fund* (one type of proprietary fund) to report activities that provide services for the County's other programs and activities - such as the Government Center.
- *Fiduciary funds* - The County is the trustee, or *fiduciary*, for its employee's pension plan. It is also responsible for other assets that are collected and held for others and are restricted for that use. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

Government-wide Financial Analysis

The County's assets exceeded liabilities by approximately \$146.7 million at the close of the 2011 fiscal year. The following is a condensed summary of net assets for the years 2010 and 2011.

County of Lehigh's Net Assets

	Total Governmental Activities		Total Business - Type Activities		Total	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Current and other assets	\$ 174,807,618	\$ 173,288,133	\$ 1,067,831	\$ 1,284,791	\$ 175,875,449	\$ 174,572,924
Capital assets	<u>239,956,580</u>	<u>245,414,480</u>	<u>1,231,927</u>	<u>1,050,742</u>	<u>241,188,507</u>	<u>246,465,222</u>
Total Assets	414,764,198	418,702,613	2,299,758	2,335,533	417,063,956	421,038,146
General obligation bonds and notes payable	190,126,538	177,671,805			190,126,538	177,671,805
Other liabilities	<u>83,206,775</u>	<u>96,547,792</u>	<u>92,300</u>	<u>103,678</u>	<u>83,299,075</u>	<u>96,651,470</u>
Total liabilities	273,333,313	274,219,597	92,300	103,678	273,425,613	274,323,275
Net assets:						
Invested in capital assets, net of related debt	63,333,813	72,641,423	1,231,927	1,050,742	64,565,740	73,692,165
Restricted	62,336,780	58,317,593			62,336,780	58,317,593
Unrestricted	<u>15,760,292</u>	<u>13,524,000</u>	<u>975,531</u>	<u>1,181,113</u>	<u>16,735,823</u>	<u>14,705,113</u>
Total net assets	\$ 141,430,885	\$ 144,483,016	\$ 2,207,458	\$ 2,231,855	\$ 143,638,343	\$ 146,714,871

Current and other assets decreased \$1.3 million. The County held a mortgage on Cedar Village apartments totaling \$1.1 million at the end of 2010. This mortgage was satisfied in 2011.

Capital assets increased \$5.3 million due to the net of \$15.4 million in net capital asset purchases less \$9.9 million in net current year accumulated depreciation. See Note 5 on page 36 for additional capital asset information.

General obligation bonds and notes payable decreased \$12.5 million due to principal payments of \$9.7 million and the net change of \$2.8 million in current year bonds due to the refunding of a portion of the County's General Obligation Bonds, Series of 2001. See Note 3 on Page 33 for additional information concerning the County's long-term debt.

Other liabilities increased \$13.4 million largely due to the net of an increase in accounts payable of \$2.6 million due to the timing of payments related to the state funded Redevelopment Assistance Capital Program (RACP), an increase in unearned grant revenue of \$3.8 million due Mental Health due to the receipt of first quarter 2012 funding from the state late December 2011, an increase in unamortized bond premium of \$2.3 million resulting from the refunding of a portion of Series of 2001 in 2011 as noted above, and an increase in unfunded postemployment benefits other than pensions of \$3 million. See Note 7 on page 39 for additional information concerning postemployment benefits other than pensions.

Net assets invested in capital assets, net of related debt increased \$9.1 million largely due to principal payments on general obligation bonds and notes payable totaling \$9.7 million. Restricted net assets decreased \$4 million largely due to a decrease in Health Choices funds reserved for program expenditures resulting from a decrease in allowable state reimbursement rates and client service requirements below amounts originally funded by the state. Unrestricted net assets decreased \$2 million largely due to the increase of \$3 million in postemployment benefits other than pensions noted above and an increase of \$4.8 million in the general fund noted on page 8.

Changes in Net Assets:

The following is a summary of the key elements comprising the changes in net assets for the years 2010 and 2011.

County of Lehigh's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Revenues:						
Program revenue:						
Charges for services	\$ 27,567,387	\$ 30,030,374	\$ 1,005,006	\$ 986,540	\$ 28,572,393	\$ 31,016,914
Operating grants and contributions	240,859,596	240,529,709			240,859,596	240,529,709
General revenues:						
Property taxes	92,948,977	108,165,334			92,948,977	108,165,334
Unrestricted investment earnings	1,942,285	757,800	4,812	5,188	1,947,097	762,988
Transfers	20,720	84,042	(20,720)	(84,042)		
Total revenues	363,338,965	379,567,259	989,098	907,686	364,328,063	380,474,945
Expenses:						
Elected officials	20,398,879	21,366,434			20,398,879	21,366,434
County executive	4,699,790	4,556,096			4,699,790	4,556,096
Administration	11,681,639	11,801,076			11,681,639	11,801,076
Human services	158,478,244	163,086,146	880,401	883,289	159,358,645	163,969,435
General services	14,166,100	16,063,752			14,166,100	16,063,752
Nursing homes	64,227,128	67,165,222			64,227,128	67,165,222
Corrections	36,559,827	35,069,558			36,559,827	35,069,558
Department of law	25,766	185,211			25,766	185,211
Courts	35,399,439	36,660,795			35,399,439	36,660,795
Development	8,951,747	11,529,858			8,951,747	11,529,858
Interest on long-term debt	10,994,743	9,030,980			10,994,743	9,030,980
Total expenses	365,583,302	376,515,128	880,401	883,289	366,463,703	377,398,417
Changes in net assets	(2,244,337)	3,052,131	108,697	24,397	(2,135,640)	3,076,528
Ending net assets	\$141,430,885	\$144,483,016	\$ 2,207,458	\$ 2,231,855	\$143,638,343	\$146,714,871

The County's total revenues increased \$16.1 million to \$380.5 million due to:

- An increase in property tax revenue of \$15.2 million due to a millage increase from 10.25 in 2010 to 11.90 in 2011
- An increase in charges for services of \$2.4 million.
- A decrease in investment earnings of \$1.2 million largely due to a decrease in investment rates.

The County's expenditures totaled \$378.4 million. The Human Services and Nursing Homes functions comprise 61% of the total expenditures. The Corrections and Courts functions comprise 19% of the total expenditures.

Financial Analysis of the Governmental Funds

The County's governmental funds combined fund balances were \$121.7 million, which is a \$9.1 million decrease from the prior year. The primary reasons for this decrease in fund balances were:

- The General Fund increased \$4.8 million largely due to the variances noted in the Budget vs. Actual section below.
- The Health Choices Fund decreased \$5.3 million largely due to decreases in state funding. These funds are restricted for the payment of specific program expenditures.
- Bond Fund 2007 decreased \$6.3 largely due to the continuation of the courthouse renovation expansion project as well as the renovation of the men's community correction center. Remaining funds are restricted for future capital asset construction and purchase.
- The Other Governmental Funds decreased \$2.4 million largely due 2010 note proceeds for energy saving projects that were carried over and spent in 2011.

General Fund Budgetary Highlights

Original vs. Final Budget

Differences between the original adopted budget and the final amended budget of revenues in the General Fund resulted in a net increase of \$9.9 million, or 5.1 percent. This increase is largely due to an increase in the Grants and Reimbursements budget from \$64.5 million to \$71.7 million which is the result of revisions for several projects, such as the state funded Redevelopment Assistance Capital Program (RACP), which were not originally budgeted and are funded by state grant revenues. Also, the Other revenues budget increased from \$.2 million to \$2.8 million due to the sale of land for \$2.5 million not originally budgeted.

Differences between the original adopted budget and the final amended budget of expenditures in the General Fund resulted in a net increase of \$7.9 million, or 4.6 percent. This increase is largely due to an increase in the Development expenditure budget from \$.6 million to \$7.4 million which is the result of revisions for several projects, such as the state funded Redevelopment Assistance Capital Program (RACP) noted above.

Final Budget vs. Actual

- \$.8 million unfavorable variance in tax revenues largely due to the downturn in the economy and continued tax appeals.
- \$1.1 million unfavorable variance in grant revenue
- \$1.2 million favorable variance in Administration expenditures largely due to favorable budgetary variations in personnel and healthcare costs as well as operational costs such as general insurance.
- \$1 million favorable variance in Corrections expenditures largely due to favorable budgetary variations in personnel and healthcare costs as well as operational costs such as electricity, water/sewer, and maintenance/repairs.
- \$1.5 million favorable variance in Nursing Home expenditures due to favorable budgetary variations in personnel and healthcare costs.
- \$1.3 million favorable variance in Courts expenditures largely due to favorable budgetary variations in personnel and healthcare costs.
- \$2.1 million favorable variance in Development expenditures largely due to budgeted RACP expenditures that were carried over to 2012.

- Overall net favorable other financing sources / (uses) variance of \$7.3 million largely due to anticipated capital asset activity that did not occur. Such projects are not funded through debt borrowings. Funding of these projects is achieved through transfers from individual funds to the Other Capital Projects Fund. In addition, \$1.6 million in budgeted debt payments for series 2001 were not required due to the refunding of the debt in 2011 and budgeted human service underwrite that was not required to comply with external regulations was reduced \$1 million.

Capital Assets

The following is a schedule of the County's capital assets as of December 31, 2010 and December 31, 2011:

County of Lehigh's Capital Assets

	Total Governmental Activities		Total Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Land	\$ 12,314,926	\$ 12,314,926	\$ 236,533	\$ 236,533	\$ 12,551,459	\$ 12,551,459
Buildings and improvements	179,478,922	185,707,928	806,842	661,943	180,285,764	186,369,871
Machinery and equipment	11,037,126	8,329,397	171,602	137,366	11,208,728	8,466,763
Furniture and Fixtures	3,139,400	3,219,630	16,950	14,900	3,156,350	3,234,530
Easements	18,231,478	18,784,250			18,231,478	18,784,250
Infrastructure	15,754,728	17,058,349			15,754,728	17,058,349
Total	\$ 239,956,580	\$ 245,414,480	\$ 1,231,927	\$ 1,050,742	\$ 241,188,507	\$ 246,465,222

Noteworthy capital asset purchases/projects that took place in 2011 were as follows:

- \$2.3 million - Continuation of the courthouse renovation expansion project
- \$3.2 million - Renovations to men's community correction center
- \$0.6 million - Purchased additional easements for agricultural land preservation
- \$1.8 million - Major bridge reconstruction
- \$5.5 million in energy saving projects

Additional information of the County's Capital Assets can be found in Note 5 on page 36.

Debt Administration

At year-end the County had \$168.7 million in general obligation bonds and \$9 million in general obligation notes outstanding. More detailed information about the County's long-term liabilities is presented in Note 3 on Page 33.

The County's general obligation debt has been rated as Aa1 by Moody's Investor Services due to the County's stable financial position.

State statutes limit the amount of general obligation debt a governmental entity may issue. The current debt limitation for the County of Lehigh is \$533 million as stated within the official statement of the County's most recent bond issuance, which is significantly in excess of the County's outstanding general obligation debt.

Economic Factors and Next Year's Budgets and Rates

- Unemployment in the Allentown-Bethlehem-Easton metropolitan was 7.9 percent compared to the state's rate of 7.9 percent and the national rate of 8.5 percent.
- 2011 inflation in the Lehigh Valley (Lehigh and Northampton counties) was 2.9 percent.

These indicators were taken into account when adopting the general fund budget for 2012.

Property tax millage for 2012 is the same as 2011 which is 11.90 mills. In addition, a one time expiring tax credit was authorized for 2012 totaling \$4,370,000 for taxpayers whose taxes are paid in full by the end of the year. It was calculated on a pro rata basis across the classes of all taxable properties. This credit will expire on December 31, 2012.

Request for Information

This financial report is designed to provide the reader an overview of the County. Questions regarding any information in this report should be directed to: Fiscal Office, Room 467, Government Center, 17 South Seventh Street, Allentown, PA, 18101-2400.

COUNTY OF LEHIGH, PENNSYLVANIA

Statement of Net Assets

December 31, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 133,415,270	\$ 1,284,490	\$ 134,699,760
Receivables:			
Grants	21,742,081		21,742,081
Real estate taxes	4,204,596		4,204,596
Other	2,213,594	301	2,213,895
Unamortized bond issuance costs	538,051		538,051
Other	3,498,972		3,498,972
Cash and cash equivalents - restricted	7,675,569		7,675,569
Capital assets, not being depreciated	12,314,926	236,533	12,551,459
Capital assets (net of accumulated depreciation)	233,099,554	814,209	233,913,763
Total assets	<u>418,702,613</u>	<u>2,335,533</u>	<u>421,038,146</u>
LIABILITIES			
Accounts payable	16,265,386	44,247	16,309,633
Deposits and agency amounts payable	7,675,569		7,675,569
Accrued payroll and payroll taxes	2,179,119	1,234	2,180,353
Due to other governmental units	104,931		104,931
Unearned grant revenues	15,026,525		15,026,525
Current portions of long term liabilities:			
General obligation bonds payable	9,855,000		9,855,000
Note payable	546,272		546,272
Unamortized bond premium	1,419,287		1,419,287
Noncurrent portions of long term liabilities:			
Accrued vacation and other compensation	15,052,662		15,052,662
Accrued worker's compensation	3,552,398		3,552,398
General obligation bonds payable	158,860,000		158,860,000
Note payable	8,410,533		8,410,533
Unamortized bond premium	6,956,595		6,956,595
Unfunded other postemployment benefits	28,315,320	58,197	28,373,517
Total liabilities	<u>274,219,597</u>	<u>103,678</u>	<u>274,323,275</u>
NET ASSETS			
Invested in capital assets (net of related debt)	72,641,423	1,050,742	73,692,165
Restricted for:			
Program expenditures	52,216,047		52,216,047
Debt service	334,834		334,834
Bond financed improvements	5,766,712		5,766,712
Unrestricted	13,524,000	1,181,113	14,705,113
Total net assets	<u>\$ 144,483,016</u>	<u>\$ 2,231,855</u>	<u>\$ 146,714,871</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Activities
For the Year Ended December 31, 2011

Function	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Elected officials	\$ 19,596,093	\$ 1,770,341	\$ 5,463,398	\$ 1,908,385	\$ (13,994,651)		\$ (13,994,651)
County executive	3,580,913	975,183	8,783	102,289	(4,445,024)		(4,445,024)
Administration	24,127,297	(12,326,221)	8,888,634	1,505,556	(1,406,886)		(1,406,886)
Human services	160,820,995	2,265,151	178,462	153,363,899	(9,543,785)		(9,543,785)
General services	17,478,690	(1,414,938)	211,624	8,367,382	(7,484,746)		(7,484,746)
Nursing homes	63,537,256	3,627,966	6,577,372	55,947,322	(4,640,528)		(4,640,528)
Corrections	33,385,817	1,683,741	2,652,019	1,971,243	(30,446,296)		(30,446,296)
Department of law	1,367,361	(1,182,150)	195,873		10,662		10,662
Courts	32,363,243	4,297,552	3,909,568	6,965,885	(25,785,342)		(25,785,342)
Development	11,296,694	233,164	1,944,641	10,397,748	812,531		812,531
Interest on long-term debt	9,030,980				(9,030,980)		(9,030,980)
Total governmental activities	<u>\$ 376,585,339</u>	<u>\$ (70,211)</u>	<u>\$ 30,030,374</u>	<u>\$ 240,529,709</u>	<u>\$ (105,955,045)</u>		<u>\$ (105,955,045)</u>
Business-type activities:							
Enterprise funds	<u>\$ 813,078</u>	<u>\$ 70,211</u>	<u>\$ 986,540</u>			<u>\$ 103,251</u>	<u>\$ 103,251</u>
Total primary government	<u>\$ 377,398,417</u>	<u>\$ 0</u>	<u>\$ 31,016,914</u>	<u>\$ 240,529,709</u>	<u>\$ (105,955,045)</u>	<u>\$ 103,251</u>	<u>\$ (105,851,794)</u>
			General revenues:				
			Taxes		108,165,334		108,165,334
			Unrestricted investment earnings		757,800	5,188	762,988
			Transfers		84,042	(84,042)	0
			Total general revenues		<u>109,007,176</u>	<u>(78,854)</u>	<u>108,928,322</u>
			Change in net assets		3,052,131	24,397	3,076,528
			Net assets, January 1		<u>141,430,885</u>	<u>2,207,458</u>	<u>143,638,343</u>
			Net assets, December 31		<u>\$ 144,483,016</u>	<u>\$ 2,231,855</u>	<u>\$ 146,714,871</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2011

	General	Mental Health	Health Choices	Area Agency on Aging	Bond Fund 2007	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 44,651,902	\$ 9,610,405	\$ 31,362,646	\$ 319,766	\$ 15,121,679	\$ 25,916,977	\$ 126,983,375
Receivables:							
Grants	12,621,176	16,154		249,160		8,855,591	21,742,081
Real estate taxes	4,204,596						4,204,596
Other	2,564,415	2,588		7,602		320,500	2,895,105
Other	48,942					3,450,030	3,498,972
Cash and cash equivalents - restricted	1,886,768		5,600,000			188,801	7,675,569
Total assets	<u>\$ 65,977,799</u>	<u>\$ 9,629,147</u>	<u>\$ 36,962,646</u>	<u>\$ 576,528</u>	<u>\$ 15,121,679</u>	<u>\$ 38,731,899</u>	<u>\$ 166,999,698</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	8,320,868	1,293,403	219,854	522,729	425,656	6,134,838	16,917,348
Deposits and agency amounts payable	1,886,768		5,600,000			188,801	7,675,569
Payroll and payroll taxes	1,902,587	23,231	2,333	24,127		218,001	2,170,279
Due to other governmental units	21,328				83,603		104,931
Deferred revenues:							
Grants	333,425	8,312,513		29,672		6,350,915	15,026,525
Real estate taxes	3,384,072						3,384,072
Total liabilities	<u>15,849,048</u>	<u>9,629,147</u>	<u>5,822,187</u>	<u>576,528</u>	<u>509,259</u>	<u>12,892,555</u>	<u>45,278,724</u>
Fund balances:							
Restricted			31,140,459		14,612,420	20,476,219	66,229,098
Committed						5,363,125	5,363,125
Unassigned	50,128,751						50,128,751
Total fund balances	<u>50,128,751</u>	<u>0</u>	<u>31,140,459</u>	<u>0</u>	<u>14,612,420</u>	<u>25,839,344</u>	<u>121,720,974</u>
Total liabilities and fund balances	<u>\$ 65,977,799</u>	<u>\$ 9,629,147</u>	<u>\$ 36,962,646</u>	<u>\$ 576,528</u>	<u>\$ 15,121,679</u>	<u>\$ 38,731,899</u>	<u>\$ 166,999,698</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2011

Total fund balances for governmental funds \$ 121,720,974

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	12,314,926
Buildings and improvements, net of \$90,740,104 accumulated depreciation	185,707,928
Machinery and equipment, net of \$38,689,825 accumulated depreciation	8,329,397
Furniture and fixtures, net of \$4,682,349 accumulated depreciation	3,219,630
Easements	18,784,250
Infrastructure, net of \$3,235,712 accumulated depreciation	<u>17,058,349</u>

Total capital assets 245,414,480

An Internal service fund is used to account for operational, debt service, and depreciation expenses of the Government Center Building that are reimbursed through building use allocations and parking rentals. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. 4,545,604

Governmental funds report the effect of bond issuance costs when debt is first issued. These amounts are deferred and amortized over the life of the bonds in the statement of net assets. 497,097

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. 3,384,072

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at December 31, 2011 are:

Accrued vacation and other compensation	(15,052,662)
Accrued worker's compensation	(3,552,398)
Bonds and notes payable	(177,671,805)
Unamortized bond premium	(6,487,026)
Unfunded other postemployment benefits	<u>(28,315,320)</u> <u>(231,079,211)</u>

Total net assets of governmental activities \$ 144,483,016

The notes to the financial statement are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Mental Health	Health Choices	Area Agency on Aging	Bond Fund 2007	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 107,722,472						\$ 107,722,472
Grants and reimbursements	71,913,488	\$ 12,249,534	\$ 73,229,233	\$ 31,020,260		\$ 51,149,002	239,561,517
Departmental earnings	17,132,651	13,333		157,787		2,627,157	19,930,928
Judicial costs and fines	3,608,331					40,721	3,649,052
Investment income	294,686	23,924	189,255	5,087	\$ 82,166	162,682	757,800
Rents	569,037					1,290,126	1,859,163
Other	3,051,478	926		150		119,390	3,171,944
Total revenues	<u>204,292,143</u>	<u>12,287,717</u>	<u>73,418,488</u>	<u>31,183,284</u>	<u>82,166</u>	<u>55,389,078</u>	<u>376,652,876</u>
EXPENDITURES							
Current:							
Elected officials	18,037,674					1,167,101	19,204,775
County executive	3,271,018						3,271,018
Administration	20,631,613				1,984,986	3,018,124	25,634,723
Human services	556,761	12,356,545	76,212,630	30,876,407		41,245,822	161,248,165
General services	7,606,565				1,425,478	8,070,468	17,102,511
Nursing homes	60,175,017				165,267	1,232,578	61,572,862
Corrections	31,905,082				2,760,800	2,014,073	36,679,955
Department of law	1,333,760						1,333,760
Courts	26,446,740					5,117,251	31,563,991
Development	8,466,270					2,740,851	11,207,121
Indirect cost allocation charges	(2,992,583)	367,233	170,099	498,423		1,886,617	(70,211)
Debt Service:							
Principal retirement						9,435,540	9,435,540
Interest						7,910,312	7,910,312
Total expenditures	<u>175,437,917</u>	<u>12,723,778</u>	<u>76,382,729</u>	<u>31,374,830</u>	<u>6,336,531</u>	<u>83,838,737</u>	<u>386,094,522</u>
Excess of revenues over (under) expenditures	<u>28,854,226</u>	<u>(436,061)</u>	<u>(2,964,241)</u>	<u>(191,546)</u>	<u>(6,254,365)</u>	<u>(28,449,659)</u>	<u>(9,441,646)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	1,824,155	810,792		509,706		26,929,715	30,074,368
Operating transfers out	(25,841,286)	(374,731)	(2,347,889)	(318,160)		(973,655)	(29,855,721)
Proceeds of general obligation bonds						15,720,600	15,720,600
Payment to refunded bond escrow agent						(15,624,605)	(15,624,605)
Total other financing sources / (uses)	<u>(24,017,131)</u>	<u>436,061</u>	<u>(2,347,889)</u>	<u>191,546</u>	<u>0</u>	<u>26,052,055</u>	<u>314,642</u>
Net change in fund balances	4,837,095	0	(5,312,130)	0	(6,254,365)	(2,397,604)	(9,127,004)
Fund balances, January 1	45,291,656	0	36,452,589	0	20,866,785	28,236,948	130,847,978
Fund balances, December 31	<u>\$ 50,128,751</u>	<u>\$ 0</u>	<u>\$ 31,140,459</u>	<u>\$ 0</u>	<u>\$ 14,612,420</u>	<u>\$ 25,839,344</u>	<u>\$ 121,720,974</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011

Net change in fund balances – total governmental funds \$ (9,127,004)

The change in assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded net depreciation in the current period. 2,901,705

The issuance of long-term debt is an other financing source in the governmental funds, but increases the liability in the statement of net assets. The repayment of long-term debt principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 10,180,263

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of five balances.

Accrued worker's compensation	351,673	
Accrued vacation and other compensation	(938,270)	
Unearned real estate tax revenue	442,862	
Other postemployment benefits	<u>(2,996,319)</u>	
		(3,140,054)

An internal service fund is used to account for operational, debt service, and depreciation expenses of the Government Center Building that are reimbursed through building use allocations and parking rentals. The net income of the internal service fund (net of \$763,028 depreciation which is included in the capital outlays adjustment above) is included in the governmental activities. 2,237,221

Change in net assets of governmental activities \$ 3,052,131

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Net Assets (Deficit)
Proprietary Funds
December 31, 2011

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,284,490	\$ 6,431,895
Interest receivable		
Unamortized bond issuance costs		40,954
Other receivables	301	
Total current assets	1,284,791	6,472,849
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,939,065	23,516,173
Equipment	346,074	1,073,170
Furniture and fixtures	40,983	1,441,539
Less accumulated depreciation	(5,511,913)	(10,209,670)
Total capital assets (net of accumulated depreciation)	1,050,742	15,821,212
TOTAL ASSETS	\$ 2,335,533	\$ 22,294,061
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 44,247	\$ 29,549
Accrued payroll and payroll taxes	1,234	8,840
Unamortized bond premium		863,920
Current portion of general obligation bonds payable		2,836,457
Total current liabilities	45,481	3,738,766
Noncurrent liabilities:		
General obligation bonds payable		18,017,713
Unamortized bond premium		1,024,936
Unfunded other postemployment benefits	58,197	
TOTAL LIABILITIES	103,678	22,781,415
NET ASSETS		
Invested in capital assets, net of related debt	1,050,742	(5,032,958)
Unrestricted	1,181,113	4,545,604
TOTAL NET ASSETS (DEFICIT)	\$ 2,231,855	\$ (487,354)

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)
Proprietary Funds
For the Year Ended December 31, 2011

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 986,540	
Government Center revenues		\$ 3,325,142
Total operating revenues	<u>986,540</u>	<u>3,325,142</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	602,312	
Government Center		1,417,057
Depreciation	210,766	763,028
Indirect cost allocation charges	70,211	
Total operating expenses	<u>883,289</u>	<u>2,180,085</u>
OPERATING INCOME	<u>103,251</u>	<u>1,145,057</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	5,188	27,406
Capital grant		968,192
Amortization of bond premium		377,771
Amortization of bond issuance costs		(8,190)
Interest expense		(901,438)
Total nonoperating revenues	<u>5,188</u>	<u>463,741</u>
OTHER FINANCING USES		
Transfers out	(84,042)	(134,605)
	<u>(84,042)</u>	<u>(134,605)</u>
Change in net assets	24,397	1,474,193
Total net assets (deficit), January 1	<u>2,207,458</u>	<u>(1,961,547)</u>
Total net assets (deficit), December 31	<u>\$ 2,231,855</u>	<u>\$ (487,354)</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 986,793	\$ 3,325,142
Payments to suppliers	(359,671)	(397,380)
Payments to employees	(176,641)	(771,212)
Payments of benefits on behalf of employees	(54,622)	(254,031)
Indirect cost allocation charges	(70,211)	
Net cash provided by operating activities	325,648	1,902,519
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(84,042)	(134,605)
Net cash used for noncapital financing activities	(84,042)	(134,605)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds of debt issuance		21,484,055
Payment to refunded bond escrow agent		(20,926,895)
Proceeds of capital grant		968,192
Purchases of capital assets	(29,581)	(2,556,195)
Principal paid on capital debt		(284,193)
Interest paid on capital debt		(786,328)
Net cash used by capital and related financing activities	(29,581)	(2,101,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	5,188	34,821
Net cash provided by investing activities	5,188	34,821
Net increase / (decrease) in cash and cash equivalents	217,213	(298,629)
Cash and cash equivalents, January 1	1,067,277	6,730,524
Cash and cash equivalents, December 31	\$ 1,284,490	\$ 6,431,895
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 103,251	\$ 1,145,057
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	210,766	763,028
Change in assets and liabilities:		
Decrease in other receivables	253	
Increase / (decrease) in accounts payable	7,813	(7,380)
Increase in payroll and payroll taxes payable	105	1,814
Increase in unfunded other postemployment benefits payable	3,460	
Net cash provided by operating activities	\$ 325,648	\$ 1,902,519

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 45,675,633	\$ 11,594,392
Investments, at fair value:		
United States government and municipal obligations	34,915,620	104,654
Corporate and foreign bonds	65,295,143	51,511
Common stock	107,985,198	196,670
Mutual fund - alternatives	31,033,523	
Mutual fund - corporate bonds		26,885
Mutual fund - common stock	31,828,487	
Mutual fund - foreign stock	41,565,136	
Total investments	<u>312,623,107</u>	<u>379,720</u>
Receivables:		
Interest and dividends	955,734	
Employee contributions	84,044	
Due from brokers	441,744	
Other		40,772
Total receivables	<u>1,481,522</u>	<u>40,772</u>
 Total assets	 <u>\$ 359,780,262</u>	 <u>\$ 12,014,884</u>
LIABILITIES		
Accounts payable	\$ 178,711	\$ 568,634
Deposits and agency amounts payable		8,137,342
Due to other governmental units		3,308,908
Withdrawals payable	80,815	
Pension benefits payable	490,484	
Total liabilities	<u>\$ 750,010</u>	<u>\$ 12,014,884</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 359,030,252</u>	

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	<u>Employee Retirement Plan</u>
ADDITIONS	
Contributions:	
Employee	\$ 6,457,637
Employer	10,428,623
Total contributions	<u>16,886,260</u>
Investment income:	
Interest and dividend income	7,767,896
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	786,745
Corporate and foreign bonds	2,881,217
Common stock	14,548,283
Mutual fund - alternatives	(3,575,043)
Mutual fund - corporate bonds	1,839,216
Mutual fund - common stock	(11,867,912)
Mutual fund - foreign stock	(7,920,589)
Partnerships - real estate	1,207,449
	<u>(2,100,634)</u>
Less investment expenses	(1,156,593)
Net investment income	<u>4,510,669</u>
Other additions	<u>32,487</u>
Total additions	21,429,416
DEDUCTIONS	
Employee contributions refunded	644,816
Retirement benefits paid	18,317,031
Death benefits paid	1,512,702
Administrative expense	44,388
Total deductions	<u>20,518,937</u>
Change in net assets	910,479
Net assets, January 1	<u>358,119,773</u>
Net assets, December 31	<u><u>\$ 359,030,252</u></u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

For financial reporting purposes, the County's financial statements include all funds, departments, agencies, boards, commissions and other organizations for which County officials are financially accountable.

The County has reviewed and evaluated its relationship with the following organizations to determine if these organizations should be included in the financial statements of the County:

- Lehigh County Authority
- Lehigh County General Purpose Authority
- Lehigh County Housing Authority
- Lehigh County Industrial Development Authority
- Lehigh County Redevelopment Authority
- Lehigh-Northampton Airport Authority
- Lehigh and Northampton Transportation Authority
- Lehigh Valley Planning Commission
- Lehigh County Conservation District
- Private Industry Council of the Lehigh Valley

As required by Governmental Accounting Standards Board Statement No. 39, "Determining Whether Certain Organizations are Component Units", an amendment of Statement No. 14, "The Financial Reporting Entity", these entities have been placed in one of the following categories:

1. Component Unit - A legally separate organization for which elected officials of the County are financially accountable. This type of entity may then be reported in one of the two following manners:
 - Discrete presentation - Financial data for the component unit is presented in a column separate from that of the County's financial data. There is no such presentation for the County's financial statements.
 - Blended presentation - Financial data for the component unit is presented in the same manner as that of the County's financial data and is reported as part of the County's financial operations. There is no such presentation for the County's financial statements.
2. Joint Venture - A legal entity or other organization that results from a contractual arrangement is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. There are no such entities included in the County's reporting entity.

3. Related Organization - An organization for which the County is not financially accountable even though the County appoints a voting majority of the organization's governing board.

The criteria used to determine how these organizations should be categorized in the financial statements of the County were: (1) selection of the governing board, (2) ability to significantly influence operations, (3) existence of a financial benefit/burden relationship and (4) financial interdependency.

The County Executive is responsible for appointing members of the governing boards of the Lehigh County Authority, Lehigh County General Purpose Authority, Lehigh County Housing Authority, Lehigh County Industrial Development Authority, Lehigh County Redevelopment Authority, Lehigh-Northampton Airport Authority, Lehigh County Conservation District, and the Private Industry Council of the Lehigh Valley. These appointments are approved by the County Board of Commissioners. The County's accountability for these organizations does not extend beyond making the appointments. Thus, these organizations have been determined to be related organizations.

In addition, the County supports the Lehigh Valley Planning Commission which is engaged in general, regional, environmental, transportation, housing and other studies. In 2011, the County paid \$425,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2011, the County provided \$407,500 in subsidies to this Authority. The County Executive appoints, and the County Board of Commissioners approves, one half of the governing board for each organization. These two organizations have been determined to be related organizations.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for fiduciary activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, retirement trust fund, and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement 33 – *Accounting and financial Reporting for Non-Exchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability, rather than an expenditure.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. A separate column is presented in the government-wide financial statements to allocate indirect expenses to their various functional activities. That column presents a decrease for each function that reports an expense to be allocated and a corresponding increase for each function to which that expense is being allocated.

Fund Financial Statements

The underlying accounting system of the County is organized and operated on the basis of separate funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net assets, revenues and expenditures or expenses, as appropriate. Fund financial statements for the governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate. The determination of major funds is based on minimum criteria set forth in GASB Statement Number 34. When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted sources, and then from unrestricted sources. The following funds are used to account for the activities of the County:

Governmental Funds

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County's expendable financial resources and the related liabilities are accounted for through governmental funds. 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, except taxes, to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. 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 net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental funds exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than fund assets. Debt service expenditures as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

The County's major Governmental Funds are General Fund, Mental Health Fund, Health Choices Fund, Area Agency on Aging Fund, and Bond Fund 2007.

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Revenues of this Fund are primarily derived from general property taxes, departmental earnings, which are fees for services, and state and federal distributions. Many of the more important activities of the County, including operation of general County government, boards, commissions, and the court system are accounted for in this Fund.

The Mental Health Fund is used to account for the proceeds of specific revenue sources related to the provision of mental health services that are restricted to expenditures for those specified purposes.

The Health Choices Fund is used to account for the proceeds of specific revenue sources related to the provision of managed care services programs (including mental health and intellectual disabilities) that are restricted to expenditures for those specified purposes.

The Area Agency on Aging Fund is used to account for the proceeds of specific revenue sources related to the provision of aging services that are restricted to expenditures for those specified purposes.

The Bond Fund 2007 is used to account for the proceeds of general obligation debt that are restricted to capital asset construction and purchase.

Proprietary Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal service funds are used to account for goods or services provided by a central service department or agency to other departments, agencies, or to other unrelated governmental units, usually on a cost reimbursement basis. Accordingly, revenue and other financial resources of these funds should recover expenses, including depreciation.

Proprietary fund operating revenues and operating expenses are the result of providing services in connection with the fund's principal ongoing operations. Operating revenues include charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment earnings are reported as nonoperating revenues as they are ancillary to the principal ongoing operations.

Pursuant to Section P80 of Governmental Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the County has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Enterprise Fund

- The Cedar View Apartments Fund is used to account for tenant rentals received from occupants of a 200-unit apartment building for the elderly and related maintenance expenses.

Internal Service Fund

- The Government Center Fund is used to account for operational, debt service, and depreciation expenses of the Government Center Building that are reimbursed through building use allocations and parking rentals.

Fiduciary Funds

The Employees' Retirement Fund is used to account for the revenue and expenditures of the County's retirement system.

Agency Funds are used to account for assets held as an agent for individuals, private organizations, and/or other governmental units.

Cash and Cash Equivalents

The County considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of certificates of deposit, interest-bearing accounts and noninterest-bearing accounts.

Investments

The County accounts for its investments at fair value.

Real Estate Taxes

Substantially all real estate taxes are levied annually on April 1 with the face amount due by July 31. Unpaid taxes become delinquent on December 31 in the year of levy. Current year and delinquent tax payments are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenue as of December 31. The 2011 real estate taxes assessed equaled \$109,413,409 based on a total County valuation of \$9,194,404,100. Based on the 2011 levy of 11.90 mills, a property owner would pay \$11.90 per \$1,000 of assessed valuation.

The dates relevant to the collection of delinquent 2011 real estate taxes are as follows:

July 31, 2012	Notices of unpaid delinquent taxes must be mailed by the County.
August 30, 2013	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 9, 2013	This is the earliest date on which the County may conduct the tax sale (upset sale) to recover unpaid delinquent taxes, penalties, costs, and interest.
December 13, 2013	This is the earliest date on which the County would conduct the judicial tax sale for parcels remaining unsold at the previous upset sale to recover all costs incurred by the County in its attempt to collect unpaid taxes on a particular parcel (actual taxes, interest, and penalties are waived). Parcels remaining unsold after the judicial tax sale are placed in a repository for unsold properties.

Capital Assets

Capital assets, which include property, plant, equipment, furniture, easements, and infrastructure assets, are reported in the governmental and business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The County defines capital assets as assets with an initial, individual cost exceeding \$5,000 (\$50,000 for infrastructure assets and \$500 for nursing home assets) and an estimated useful life exceeding one year. All capital assets are recorded at cost, if known, or estimated historical cost. Donated fixed assets are recorded at their fair market value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Depreciation is not recognized for easement assets since they have an indefinite life.

Depreciation is recognized over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	15-40 years
Machinery and equipment	5-15 years
Furniture and fixtures	8-15 years
Infrastructure	40 years

Accrued Vacation and Other Compensation

County policy is to pay terminated employees for unused vacation, and upon retirement, qualified full-time employees, as defined by County policy, are paid for 30% of their earned unused sick leave to a maximum of one hundred eighty days. Unpaid vacation and other compensatory leave is accrued in the period it is earned. Unpaid sick pay is accrued as such benefits are earned by employees who qualify for voluntary retirement as defined by County policy as well as for those employees who are estimated to become eligible to receive such benefits. The estimated value of vacation and other compensatory leave and sick leave earned by employees which may be used in subsequent years, or paid upon termination or retirement, is accrued in the government-wide financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

The County affects a variety of transactions between funds to finance operations, service debt, and other similar functions. Accordingly, to the extent that certain interfund transactions have not been paid or received, appropriate interfund receivables and payables have been established at the fund level.

Unearned and Deferred Revenues

Revenues that are received but not earned are recorded as unearned revenue in the government-wide and enterprise funds financial statements. In the County's governmental funds, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred and unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* - This category represents net assets of the County, not restricted for any project or other purpose.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable fund balance** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- **Restricted fund balance** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. These amounts cannot be used for any other purpose unless the Board of Commissioners remove or change the specified use by taking the same type of action that was employed when the funds were initially committed.
- **Assigned fund balance** – This classification includes amounts that are constrained by the County’s intent to be used for a specific purpose but are neither restricted nor committed. The Board of Commissioners has the responsibility to approve or remove assigned fund balance to reflect the intended use of the resources.
- **Unassigned fund balance** – This classification represents amounts that are available for any purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and lastly unassigned fund balance.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

Adoption of Governmental Accounting Standards Board Statements

The County adopted the requirements of GASB statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”. The adoption of this statement resulted in the reclassification of fund balances in the Balance Sheet – Governmental Funds and the modification of Note 1.

The County adopted the requirements of GASB statement No. 59, “*Financial Instruments Omnibus*”. The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

In December 2009, the GASB issued Statement No. 57, “*OPEB Measurement by Agent Employers and Agent Multi-Employer Plans*”. The County is required to adopt statement No. 57 for its calendar year 2012 financial statements.

In November 2010, the GASB issued Statement No. 60, “*Accounting and Financial Reporting for Service Concession Arrangements*”. The County is required to adopt statement No. 60 for its calendar year 2012 financial statements.

In November 2010, the GASB issued Statement No. 61, “*The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*”. The County is required to adopt statement No. 61 for its calendar year 2013 financial statements.

In December 2010, the GASB issued Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*”. The County is required to adopt statement No. 62 for its calendar year 2012 financial statements.

In June 2011, the GASB issued Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. The County is required to adopt statement No. 63 for its calendar year 2012 financial statements.

In June 2011, the GASB issued Statement No. 64, “*Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*”. The County is required to adopt statement No. 64 for its calendar year 2012 financial statements.

In March 2012, the GASB issued Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. The County is required to adopt statement No. 65 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 66, “*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*”. The County is required to adopt statement No. 66 for its calendar year 2013 financial statements.

The County has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2 DEPOSIT AND INVESTMENT RISK

As of December 31, 2011, the County had the following debt investments and maturities within its governmental, proprietary, and agency funds:

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Cash and cash equivalents	\$ 153,969,721	\$ 153,969,721	
U.S. government treasuries	104,654	20,163	\$ 84,491
Corporate bonds	51,511	10,258	41,253
Total	\$ 154,125,886	\$ 154,000,142	\$ 125,744

As of December 31, 2011, the County had the following debt investments and maturities within its Employee Retirement Plan Fund:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Cash and cash equivalents	\$ 45,675,633	\$ 45,675,633			
U.S. government treasuries	21,579,974	3,074,563	\$ 15,526,094	\$ 1,037,114	1,942,203
U.S. government agencies	13,335,646		578,080	3,061,948	9,695,618
Corporate bonds	65,295,143		8,364,711	23,883,990	33,046,442
Total	\$ 145,886,396	\$ 48,750,196	\$ 24,468,885	\$ 27,983,052	\$ 44,684,263

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the County’s investment policy is to invest funds to meet the projected cash flow requirements and by investing primarily in shorter-term securities, money market mutual funds, or similar investment pools. Investments must be made in accordance with the Commonwealth of Pennsylvania’s Act 72.

The County’s Retirement Plan Investment Policy states that emphasis shall be placed on providing adequate and timely investment cash flow to permit benefit payments from the Retirement Plan when due. Fixed income investment allocation is targeted to 35% (with an allowable range of +/- 10%) of the portfolio. The investments may be adjusted to meet economic and/or investment market conditions.

The County's Retirement Investment Policy states that the overall rating of the fixed income assets shall be at least "A". In cases where the yield spread adequately compensates for additional risk, "BAA" or "BBB" ratings can be purchased up to a maximum of 20% of the total market value of fixed income securities. The County is in compliance with the Retirement Investment Policy. Fixed income securities invested in mutual funds are excluded from the table below.

As of December 31, 2011, the County's retirement investments had a credit rating as follows:

Investment Type	Credit Quality Rating	Percent of Investment Type
Cash Equivalent	Aaa	100%
U.S. Government Treasuries	Aaa	100%
U.S. Government Agencies	Aaa	100%
Corporate Bonds	Aaa	45%
Corporate Bonds	A1	5%
Corporate Bonds	A2	10%
Corporate Bonds	A3	7%
Corporate Bonds	Aa1	1%
Corporate Bonds	Aa2	6%
Corporate Bonds	Aa3	8%
Corporate Bonds	Baa1	8%
Corporate Bonds	Baa2	7%
Corporate Bonds	Baa3	3%

Custodial Credit Risk – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's custodial credit risk policy for governmental fund's investments is to limit investments to the safest types of securities, to pre-qualify the financial institutions the County does business with and to diversify the investment portfolio so that potential losses on individual securities will be minimized. The County's Retirement Investment Policy states that fixed income investments shall be high quality, marketable securities with a preponderance of the fixed income investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade corporate assets including convertibles.

As of December 31, 2011, the County's cash and restricted cash balances for its governmental funds, proprietary funds and agency funds were \$153,969,721 and its bank balances were \$160,712,154. The entire bank balance was either insured or collateralized with securities held by the pledging financial institutions, or by their trust departments or agents, but not in the County's name. The entire cash and cash equivalent balance in the Employee Retirement Plan Fund was either insured collateralized with securities held by the pledging financial institutions, or their trust departments or agents, but not in the County's name.

NOTE 3

LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the County for the year ended December 31, 2011:

	Balance at January 1, 2011	Additions	Retirement s	Balance at December 31, 2011	Amount due within one year
Accrued vacation and other compensation	\$ 14,114,392	\$ 938,270		\$ 15,052,662	
Accrued worker's compensation	3,904,071	1,306,896	\$ (1,658,569)	3,552,398	
General obligation bonds payable	180,640,000	32,925,000	(44,850,000)	168,715,000	\$ 9,855,000
Note payable	9,486,538		(529,733)	8,956,805	546,272
Unamortized bond premium/discount	6,072,674	3,722,495	(1,419,287)	8,375,882	1,419,287
	<u>\$ 214,217,675</u>	<u>\$ 38,892,661</u>	<u>\$ (48,457,589)</u>	<u>\$ 204,652,747</u>	<u>\$ 11,820,559</u>

General Obligation Bonds and Notes Payable

The following is a summary of general obligation notes and bonds payable of the County for the year ended December 31, 2011:

\$47,425,000 2004 General Obligation Bonds, serial bonds due in annual installments of \$130,000 to \$5,970,000 through November 15, 2017, interest rates vary from 3.5% to 4.10%	11,445,000
\$76,895,000 2007 General Obligation Bonds, serial bonds due in annual installments of \$5,000 to \$12,835,000 through November 15, 2022, interest rates vary from 4.00% to 5.00%	76,880,000
\$18,120,000 2007 Federally Taxable General Obligation Bonds, serial bonds due in annual installments of \$305,000 to \$1,215,000 through December 15, 2037, interest rates vary from 5.35% to 5.85%	17,050,000
\$13,355,000 2007 Guaranteed Authority Bonds, serial bonds due in annual installments of \$5,000 to \$1,585,000 through December 15, 2037, interest rates vary from 4.00% to 4.5%	13,335,000
\$17,085,000 2010 General Obligation Bonds, serial bonds due in annual installments of \$1,900,000 to \$5,310,000 through November 15, 2015, interest rate of 5%	17,080,000
\$32,925,000 2011 General Obligation Bonds, serial bonds due in annual installments of \$4,595,000 to \$7,540,000 through November 15, 2016, interest rates vary from 2.5% to 5%	<u>32,925,000</u>
Total general obligation bonds payable	168,715,000

\$4,975,756 2009 General Obligation Note, due in quarterly installments of \$63,756 to \$109,000 through September 1, 2024, interest rate of 3.73%	4,450,000
\$4,768,538 2010 General Obligation Note, due in quarterly Installments of \$261,733 to \$381,744 through November 15, 2025, interest rates of 3.75% and 5.60%	<u>4,506,805</u>
Total notes payable	<u>8,956,805</u>
Total general obligation bonds and notes payable	<u>\$ 177,671,805</u>

The annual requirements to amortize all general obligation bonds and notes payable as of December 31, 2011 are as follows:

	<u>Governmental Activities</u>		<u>Internal Service Fund</u>		<u>Total Debt Service</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 7,564,815	\$ 7,511,256	\$ 2,836,457	\$ 830,703	\$ 10,401,272	\$ 8,341,959	\$ 18,743,231
2013	8,673,613	7,187,359	4,115,245	759,609	12,788,858	7,946,968	20,735,826
2014	9,045,615	6,815,498	4,237,874	636,241	13,283,489	7,451,739	20,735,228
2015	9,466,256	6,399,449	4,405,912	467,394	13,872,168	6,866,843	20,739,011
2016	9,901,483	5,971,699	4,625,412	248,377	14,526,895	6,220,076	20,746,971
2017-2021	71,335,585	21,051,019	332,534	73,427	71,668,119	21,124,446	92,792,565
2022-2026	19,600,268	6,969,456	300,736	22,327	19,901,004	6,991,783	26,892,787
2027-2031	7,320,000	4,738,620			7,320,000	4,738,620	12,058,620
2032-2036	11,110,000	2,509,133			11,110,000	2,509,133	13,619,133
2037	2,800,000	142,403			2,800,000	142,403	2,942,403
	<u>\$156,817,635</u>	<u>\$69,295,892</u>	<u>\$ 20,854,170</u>	<u>\$ 3,038,078</u>	<u>\$177,671,805</u>	<u>\$72,333,970</u>	<u>\$250,005,775</u>

On August 30, 2011, the County issued \$32,925,000 General Obligation Bonds, Series of 2011. The proceeds of this bond financed the current refunding of a portion of the County's General Obligation Bonds, Series of 2001, including the cost of issuance of the Bonds, in both the Governmental and Proprietary Funds. The refunding resulted in a decrease in total debt service payments of \$3,991,761 and an economic gain (difference between the present value of the old and the new debt service payments) of \$3,969,967. The allocation of total bond proceeds and escrow payments between the fund types is as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Note Proceeds	15,720,600	20,926,895	36,647,495
Payment to Escrow Agent	15,624,605	20,926,895	36,551,500

NOTE 4 INTERFUND TRANSFERS

Certain interfund transfers are executed as a result of the General Fund's requirement to match a portion of another fund's expenses or expenditures. In addition, the General Fund receives certain reimbursements from other funds. Interfund transfers to and transfers from of each individual fund for the year ended December 31, 2011 are as follows:

Transfer In:

	General Fund	Mental Health Fund	Area Agency On Aging Fund	Other Governmenta l Funds	Total
<u>Transfer Out:</u>					
General Fund		\$ 566,744	\$ 72,732	\$ 25,201,810	\$25,841,286
Mental Health	\$ 100,500			274,231	\$ 374,731
Health Choices Fund	\$ 646,700	244,048	436,974	1,020,167	\$ 2,347,889
Area Agency on Aging Fund				318,160	\$ 318,160
Other Governmental Funds	973,655				\$ 973,655
Enterprise Fund				84,042	\$ 84,042
Internal Service Fund	103,300			31,305	\$ 134,605
	<u>\$ 1,824,155</u>	<u>\$ 810,792</u>	<u>\$ 509,706</u>	<u>\$ 26,929,715</u>	

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 12,314,926			\$ 12,314,926
Capital assets, being depreciated:				
Buildings and improvements	263,311,255	\$ 13,136,777		276,448,032
Machinery and equipment	47,674,574	1,278,616	\$ (1,933,968)	47,019,222
Furniture and fixtures	7,326,252	575,727		7,901,979
Easements	18,231,478	552,772		18,784,250
Infrastructure	18,505,097	1,788,964		20,294,061
Total capital assets, being depreciated	<u>355,048,656</u>	<u>17,332,856</u>	<u>(1,933,968)</u>	<u>370,447,544</u>
Total capital assets, historical cost	<u>367,363,582</u>	<u>17,332,856</u>	<u>(1,933,968)</u>	<u>382,762,470</u>
Less accumulated depreciation for:				
Buildings and improvements	(83,832,333)	(6,907,771)		(90,740,104)
Machinery and equipment	(36,637,448)	(3,710,854)	1,658,477	(38,689,825)
Furniture and fixtures	(4,186,852)	(495,497)		(4,682,349)
Infrastructure	(2,750,369)	(485,343)		(3,235,712)
Total accumulated depreciation	<u>(127,407,002)</u>	<u>(11,599,465)</u>	<u>1,658,477</u>	<u>(137,347,990)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 239,956,580</u>	<u>\$ 5,733,391</u>	<u>\$ (275,491)</u>	<u>\$ 245,414,480</u>
Business-type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 236,533			\$ 236,533
Capital assets, being depreciated:				
Buildings and improvements	5,926,605	\$ 12,460		5,939,065
Machinery and equipment	328,953	17,121		346,074
Furniture and fixtures	40,983			40,983
Total capital assets, being depreciated	<u>6,296,541</u>	<u>29,581</u>	<u>-</u>	<u>6,326,122</u>
Total capital assets, historical cost	<u>6,533,074</u>	<u>29,581</u>	<u>-</u>	<u>6,562,655</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,119,763)	(157,359)		(5,277,122)
Machinery and equipment	(157,351)	(51,357)		(208,708)
Furniture and fixtures	(24,033)	(2,050)		(26,083)
Total accumulated depreciation	<u>(5,301,147)</u>	<u>(210,766)</u>	<u>-</u>	<u>(5,511,913)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 1,231,927</u>	<u>\$ (181,185)</u>	<u>-</u>	<u>\$ 1,050,742</u>

Depreciation expense was charged to each function in the Statement of Activities as follows:

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 307,072
Executive	234,470
Administration	3,036,897
Human services	21,963
General services	4,019,064
Nursing homes	1,605,901
Corrections	1,777,365
Department of law	114
Courts	512,847
Development	<u>83,772</u>
 Total depreciation expense-governmental activities	 <u>\$11,599,465</u>
 Total depreciation expense - business-type activities - enterprise funds	 <u>\$ 210,766</u>

NOTE 6 EMPLOYEES' RETIREMENT FUND

The Employees' Retirement Fund is used to account for retirement pension plan contributions of the County and its employees.

Description - The County of Lehigh Employees' Retirement Fund ("Plan"), a single-employer plan, was established in 1942 and is a contributory defined benefit pension plan. Plan benefits and obligations are under the authority of Pennsylvania State Act Number 96 of 1971 and can be amended by Act of the General Assembly of the Commonwealth of Pennsylvania. All County employees with the expectation of working over 1,000 hours per year are required to participate in the Plan. Elected officials have the option to participate, while other full-time employees must participate. The Plan issues a stand-alone financial report which is available by contacting the County of Lehigh Retirement Board of Trustees, 17 South Seventh Street, Allentown, PA 18101-2400.

Contributions to the Plan made by the County and its employees are accumulated and transferred to Wells Fargo Bank, the Plan's custodian. The Plan is administered by the Retirement Board of Trustees. The Plan's assets are invested with the following investment advisors based on recommendations from Cornerstone Advisor's Assets Management Inc., the Plan's consultant: Agincourt Capital Management, LLC, American Funds EuroPacific – MSCI EAFE Fund, Attalus – HFRI Composite Fund, CBRE Clarion Securities, LLC, C. S. McKee, LP, Eaton Vance – S&P Leveraged Loan Fund, Edgar Lomax Company, Emerald Advisers, Inc., JPMorgan – HFRI Composite Fund, Mondrian Investment Partners, Inc., Nuveen Preferred – S&P Preferred Stock Fund, PIMCO Commodity – Dow AIG Commodity Fund, Sterling Capital Management, LLC, Sustainable Growth Advisors, LP, The Philadelphia Trust Company, Vanguard – S&P 500 Fund, and Vanguard – MSCI EAFE Fund, the Plan's investment advisors.

An employee becomes fully vested after five years of service. Normal retirement age is attained when an employee reaches age 60, regardless of years of service, or age 55 and completion of 20 years of service.

An employee's normal retirement benefit is the total of the employee's annuity based upon the actuarial value of the employee's accumulated contributions and a County annuity equal to the product of the final average salary (highest three years), applicable class rate, and length of membership service in each class. The County annuity will be increased in instances where a member has prior service credits. Disability retirement benefits are determined by using 25% of the final average salary for the three highest years.

Funding Policy - 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 method of funding.

Employee contributions must be 5% of their salary. Each member may voluntarily contribute up to an additional 10% above the minimum. Employee contributions earn interest at 5.5% a year, which is the maximum rate allowable by law.

Annual Pension Cost and Net Pension Obligation - The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2011. Significant actuarial assumptions used include:

Actuarial Cost Method	Entry Age
Asset Valuation Method	Act 44 Methodology
Actuarial Assumptions:	
Investment Rate of Return*	7.5%
Projected Salary Increases*	4%
* Includes Inflation at	3%
(certain assumptions were modified for the 1/1/11 actuarial valuation)	

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$364,082,316	\$361,684,784	\$(2,397,532)	100.7%	\$98,169,076	(2.4)%
1/1/2009	\$351,739,670	\$386,231,423	\$34,491,753	91.1%	\$104,774,896	32.9%
1/1/2010	\$344,533,257	\$405,281,058	\$60,747,801	85.0%	\$108,008,635	56.2%
1/1/2011	\$363,022,473	\$430,640,974	\$67,618,501	84.3%	\$109,572,720	61.7%

The annual pension costs were \$10,428,623, \$9,632,648, and \$8,046,712 for each of the fiscal years ended December 31, 2011, 2010, and 2009, respectively. The County has contributed 100% of the annual pension cost. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2011, 2010, and 2009.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND

Plan Description: The County sponsors a single-employer postemployment benefit plan that covers health and life insurance benefits for eligible retirees. These benefits were granted by County Commissioner Resolution 1975-3 (pre-home rule) and were rescinded in 1986, effective for employees hired after January 1, 1987. To be eligible for the postemployment benefits, an employee must meet the following requirements:

- Is classified as a retiree under the requirements of the State of Pennsylvania Act Number 96 of 1971
- Was employed by the County prior to January 1, 1987
- Was in the continuous employment of the County from January 1, 1987 until the date of retirement
- Received fully paid County health care benefits or an equivalent contribution to a Health Maintenance Organization program for the five years preceding the date of retirement
- Selected options of the Plan other than the "Vesting Option", as defined in the Plan, prior to receiving pension benefits or the "Lump Sum Distribution" option upon retirement

As of December 31, 2011, there were 686 retired participants in the plan and 177 potential participants who are currently active, for a total of 863 plan participants.

Funding Policy: The County currently funds the plan on a pay-as-you-go basis. The eligible retirees currently contribute nothing towards the plan's costs. The County is required to have calculated the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 thirty years. The ARC for 2011 was \$8,843,831 for the health and life insurance plan (\$8,708,007 for the health insurance and \$135,824 for the life insurance) using the implicit rate subsidy.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2006	\$0	\$161,201,061	\$161,201,061	0%	\$88,721,917	181.7%
1/1/2007	\$0	\$164,506,389	\$164,506,189	0%	\$93,591,263	175.8%
1/1/2008	\$0	\$150,876,102	\$150,876,102	0%	\$98,169,076	153.7%
1/1/2009	\$0	\$141,698,640	\$141,698,640	0%	\$104,774,896	135.2%
1/1/2010	\$0	\$130,304,475	\$130,304,475	0%	\$108,008,635	120.6%
1/1/2011	\$0	\$130,792,914	\$130,792,914	0%	\$109,572,720	119.4%

Development of net OPEB Obligation

(1) Year	(2) ARC	(3) Interest On Net OPEB Obligation**	(4) ARC Adjustment***	(5) Amortization Factor	(6) OPEB-Cost (2+3-4)	(7) Contribution	(8) Changes in Net OPEB Obligation (6-7)	(9) Net OPEB Obligation Balance* (BB+8)
2006	\$11,365,253	\$0	\$0	16.29	\$11,365,253	\$5,418,266	\$5,946,987	\$ 5,946,787
2007	\$11,365,253	\$267,605	\$0	16.29	\$11,632,858	\$4,889,093	\$6,743,765	\$12,690,552
2008	\$ 9,722,391	\$571,075	\$779,039	16.29	\$ 9,514,427	\$4,995,290	\$4,519,137	\$17,209,689
2009	\$9,722,391	\$774,436	\$1,056,457	16.29	\$9,440,370	\$5,024,493	\$4,415,877	\$21,625,566
2010	\$8,843,831	\$973,150	\$1,327,536	16.29	\$8,489,445	\$4,741,273	\$3,748,172	\$25,373,738
2011	\$8,843,831	\$1,141,818	\$1,557,627	16.29	\$8,428,022	\$5,428,243	\$2,999,779	\$28,373,517

* BB = Beginning balance for the year.

** Interest on the balance of the Net OPEB Obligation at the beginning of the year using the investment return rate assumed in determining ARC. The interest is an estimate of the investment earnings lost to the plan on any contributions that were not made (4.5% when applicable).

*** ARC adjustment is the previous year's balance of the Net OPEB Obligation divided by the amortization factor.

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/06	\$ 11,365,253	47.7%	\$ 5,946,787
12/31/07	\$ 11,632,858	42.0%	\$ 12,690,552
12/31/08	\$ 9,514,427	52.5%	\$ 17,209,689
12/31/09	\$ 9,440,370	53.2%	\$ 21,625,566
12/31/10	\$ 8,489,445	55.8%	\$ 25,373,738
12/31/11	\$ 8,428,022	64.4%	\$ 28,373,517

	Governmental	Business-type	Total Primary
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>
Annual required contribution (ARC)	8,833,630	10,201	8,843,831
Interest on net OPEB Obligation	1,140,501	1,317	1,141,818
Adjustment to ARC	<u>(1,555,830)</u>	<u>(1,797)</u>	<u>(1,557,627)</u>
Annual OPEB Cost (Expense)	8,418,301	9,721	8,428,022
Contributions made	<u>5,421,982</u>	<u>6,261</u>	<u>5,428,243</u>
Increase to net OPEB obligation	2,996,319	3,460	2,999,779
Net OPEB obligation—beginning of year	<u>25,319,001</u>	<u>54,737</u>	<u>25,373,738</u>
Net OPEB obligation—end of year	<u><u>28,315,320</u></u>	<u><u>58,197</u></u>	<u><u>28,373,517</u></u>

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 the future employment, mortality, and the healthcare cost trend. 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. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. The projected unit credit cost method was used for valuation purposes and the level dollar method over a period of 30 years was used for the amortization of the unfunded liability. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after 5 years.

NOTE 8 RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters which are accounted for as follows:

General Liability and Property Damage

The County is insured for general liability and property damage losses. The property damage and time element deductible is \$25,000 each occurrence during the policy term. General liability losses are covered in excess of \$100,000 applicable to each occurrence.

Healthcare

The County provides one self-insured health care plan for active employees, which is a PPO (preferred provider organizations). Retirees, under age 65, are covered under a PPO plan. Retirees, age 65 and over, are covered by Capital Blue Cross Senior Plan where Medicare is primary and the Plan is secondary.

Worker’s Compensation

The County is self-insured for worker’s compensation losses. Excessive losses are covered by commercial insurance with a \$550,000 maximum retention per accident or employee.

Reserve balances are based on the requirements of Government Accounting Standards Board Statement Number 30. The County records reported loss claims and claims incurred but not reported for worker’s compensation based on estimates of independent actuaries. Such claims and estimates are not discounted. The following provides aggregate information for the current and prior year on worker’s compensation liabilities, incurred claims and payments:

	<u>Change In</u> <u>Incurred Claims</u>			<u>Payments</u>		
	<u>January 1</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>December 31</u>
2010	\$ 3,644,017	\$ 1,187,352	\$ 543,656	\$ (260,665)	\$ (1,210,289)	\$ 3,904,071
2011	\$ 3,904,071	\$ 1,375,303	\$ (68,407)	\$ (473,969)	\$ (1,184,600)	\$ 3,552,398

During 2011, there has not been a significant reduction in any insurance coverage and the amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

NOTE 9 RESTRICTED ASSETS

Cash and cash equivalents whose use is limited to a specific purpose have been classified as restricted in the governmental funds balance sheets as follows:

<u>General Fund</u>	
Cash restricted for temporarily held balances that are due other parties.	\$1,886,768
<u>Health Choices Fund</u>	
Cash restricted for claims payable.	\$5,600,000
<u>Other Governmental Funds</u>	
Cash restricted for temporarily held balances that are due to other parties.	\$188,801
Total Restricted Assets	<u>\$7,675,569</u>

NOTE 10 FUND BALANCE / NET ASSETS

The constraints on fund balance included in the governmental fund financial statements represent portions of fund balances that are restricted or committed for various purposes and are not available for the payment of other subsequent expenditures. The following restricted and committed fund balances are included in the governmental fund financial statements:

Health Choices Fund

Restricted fund balance

Amounts restricted for the payment of specific grant program expenditures.	<u>\$ 31,140,459</u>
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Bond Fund 2007

Restricted fund balance

Amounts restricted for the payment of capital project expenditures.	<u>\$ 14,612,420</u>
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Other Governmental Funds

Restricted fund balance amounts for:

The payment of specific grant and fee program expenditures.	\$ 14,023,995
The payment of capital project expenditures.	2,856,996
The required worker's compensation self-insurance reserve.	3,260,394
Debt service payments.	<u>334,834</u>
	<u>20,476,219</u>

Committed fund balance amounts for:

The payment of specific program expenditures.	\$ 3,441,199
The payment of capital project expenditures.	1,571,926
General insurance reserve.	<u>350,000</u>
	<u>5,363,125</u>

Fiduciary Fund

Held in trust for pension benefits

Amounts restricted to Employee Retirement Plan use for future payment of member benefits.	<u>\$ 359,030,252</u>
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NOTE 11 CONSTRUCTION COMMITMENTS

The County has entered into a variety of construction commitments for bridge replacement and repair for the Lehigh Street Bridge, Coplay/Northampton Bridge, and Pine Street Bridge. These commitments totaled \$10,604,508, \$9,715,845 and \$3,107,205 at December 31, 2011, respectively.

In addition, construction commitments for the expansion of the men's community correction center and the construction of a drug and alcohol detoxification and rehabilitation facility totaled \$1,003,527 and \$4,317,793 at December 31, 2011, respectively.

These projects are significantly funded by federal and state grants.

NOTE 12 OPERATING LEASE

The County has entered into a lease agreement with the Allentown Parking Authority to lease up to 326 parking spaces in a newly constructed parking deck for a period of 50 years. In an effort to better serve the parking needs of the citizens of Lehigh County as well as business and government owned enterprises located near the site, the County has contributed \$3,750,000 towards the construction costs of the new parking deck. In return, the County received 162 parking spaces. The County will rent at market rate the balance of the parking spaces as needed up to 326 spaces. The \$3,750,000 is treated as an asset that will be amortized over the length of the lease. The unamortized balance at December 31, 2011 was \$3,450,000.

NOTE 13 STABILIZATION FUND

A Stabilization Fund was established by the Board of Commissioners through Ordinance 2003-168 as a prudent budgetary practice to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. All transfers into or transfers from the Stabilization Fund shall be established during the County's budget process or upon approval of a subsequent ordinance of the Board of Commissioners. The balance of the Fund at December 31, 2011 was \$21,000,000 and is included in unassigned fund balance in the Governmental Funds Balance Sheet and unrestricted net assets in the Statement of Net Assets.

NOTE 14 LITIGATION

The County is defending a number of lawsuits, the outcomes of which, in the opinion of counsel, will not materially affect the financial position of the County.

COUNTY OF LEHIGH, PENNSYLVANIA
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes	\$ 108,473,409	\$ 108,473,409	\$ 107,697,013	\$ (776,396)
Grants and reimbursements	64,508,393	71,676,141	70,585,187	(1,090,954)
Departmental earnings	17,020,271	17,100,963	17,142,302	41,339
Costs and fines	3,605,001	3,605,001	3,605,585	584
Investment income	756,280	782,031	757,969	(24,062)
Rents	453,371	453,372	563,396	110,024
Payments in lieu of taxes	178,140	178,140	197,713	19,573
Other revenues	213,521	2,816,181	2,852,929	36,748
Total revenues	<u>195,208,386</u>	<u>205,085,238</u>	<u>203,402,094</u>	<u>(1,683,144)</u>
EXPENDITURES				
Current:				
Elected officials	18,983,549	18,348,123	18,019,894	328,229
County executive	3,414,724	3,478,678	3,304,090	174,588
Administration	20,140,117	21,067,179	19,829,726	1,237,453
Human services	575,697	556,030	554,190	1,840
General services	7,941,303	8,107,632	7,715,770	391,862
Nursing homes	59,787,225	60,497,100	58,977,471	1,519,629
Corrections	33,634,777	33,082,594	32,040,868	1,041,726
Department of law	1,347,629	1,348,054	1,333,459	14,595
Courts	27,116,192	27,589,964	26,296,179	1,293,785
Development	618,916	7,418,468	5,299,914	2,118,554
Total expenditures	<u>173,560,129</u>	<u>181,493,822</u>	<u>173,371,561</u>	<u>8,122,261</u>
Excess of revenues over expenditures	<u>21,648,257</u>	<u>23,591,416</u>	<u>30,030,533</u>	<u>6,439,117</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	7,903,661	4,632,590	2,976,450	(1,656,140)
Indirect cost allocation in	11,920,039	12,011,485	12,011,485	0
Operating transfers out	(36,738,149)	(36,928,574)	(27,961,773)	8,966,801
Indirect cost allocation out	(9,002,770)	(9,018,902)	(9,018,902)	0
Total other financing sources (uses)	<u>(25,917,219)</u>	<u>(29,303,401)</u>	<u>(21,992,740)</u>	<u>7,310,661</u>
Net change in fund balances	(4,268,962)	(5,711,985)	8,037,793	13,749,778
Fund balance, January 1	26,975,000	36,603,701	37,668,020	1,064,319
Fund balance, December 31	<u>\$ 22,706,038</u>	<u>\$ 30,891,716</u>	<u>\$ 45,705,813</u>	<u>\$ 14,814,097</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Health Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 10,727,442	\$ 14,236,161	\$ 17,740,307	\$ 3,504,146
Departmental earnings	13,072	13,072	19,636	6,564
Costs and fines				
Investment income	7,501	7,501	23,924	16,423
Rents				
Payments in lieu of taxes				
Other revenues	2	2	926	924
Total revenues	<u>10,748,017</u>	<u>14,256,736</u>	<u>17,784,793</u>	<u>3,528,057</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	10,937,151	14,446,010	13,153,059	1,292,951
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>10,937,151</u>	<u>14,446,010</u>	<u>13,153,059</u>	<u>1,292,951</u>
Excess of revenues over (under) expenditures	<u>(189,134)</u>	<u>(189,274)</u>	<u>4,631,734</u>	<u>4,821,008</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,021,175	1,117,605	810,792	(306,813)
Indirect cost allocation in				
Operating transfers out	(464,808)	(437,488)	(374,731)	62,757
Indirect cost allocation out	(367,233)	(367,233)	(367,233)	0
Total other financing sources (uses)	<u>189,134</u>	<u>312,884</u>	<u>68,828</u>	<u>(244,056)</u>
Net change in fund balances	0	123,610	4,700,562	4,576,952
Fund balance, January 1	0	4,900,140	4,909,843	9,703
Fund balance, December 31	<u>\$ 0</u>	<u>\$ 5,023,750</u>	<u>\$ 9,610,405</u>	<u>\$ 4,586,655</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Health Fund
Adjustments to Reconcile GAAP Basis to Budgetary Basis
For the Year Ended December 31, 2011

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ 0	\$ 0
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables at December 31, 2010	(2,795,821)	
Accrued as receivables at December 31, 2011 but not recognized in budget	8,293,771	8,293,771
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2010	(2,114,022)	
Accrued as deferred expenditures at December 31, 2009 but not recognized in budget		
Accrued as liabilities at December 31, 2011 but not recognized in budget	1,316,634	1,316,634
Budgetary Basis	<u>\$ 4,700,562</u>	<u>\$ 9,610,405</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Health Choices Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 74,956,488	\$ 73,106,488	\$ 73,249,606	\$ 143,118
Departmental earnings				
Costs and fines				
Investment income	192,003	192,003	189,255	(2,748)
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>75,148,491</u>	<u>73,298,491</u>	<u>73,438,861</u>	<u>140,370</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	81,481,269	78,851,908	76,191,984	2,659,924
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>81,481,269</u>	<u>78,851,908</u>	<u>76,191,984</u>	<u>2,659,924</u>
Excess of revenues over (under) expenditures	<u>(6,332,778)</u>	<u>(5,553,417)</u>	<u>(2,753,123)</u>	<u>2,800,294</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(667,125)	(3,777,840)	(2,347,889)	1,429,951
Indirect cost allocation out	(170,099)	(170,099)	(170,099)	0
Total other financing sources (uses)	<u>(837,224)</u>	<u>(3,947,939)</u>	<u>(2,517,988)</u>	<u>1,429,951</u>
Net change in fund balances	(7,170,002)	(9,501,356)	(5,271,111)	4,230,245
Fund balance, January 1	36,250,000	36,633,703	36,633,757	54
Fund balance, December 31	<u>\$ 29,079,998</u>	<u>\$ 27,132,347</u>	<u>\$ 31,362,646</u>	<u>\$ 4,230,299</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Health Choices Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2011

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ (5,312,130)	\$ 31,140,459
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2010	20,623	
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2010	(201,791)	
Accrued as liabilities at December 31, 2011 but not recognized in budget	222,187	222,187
Budgetary Basis	\$ (5,271,111)	\$ 31,362,646

COUNTY OF LEHIGH, PENNSYLVANIA
Area Agency on Aging Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 37,715,914	\$ 32,484,649	\$ 30,768,974	\$ (1,715,675)
Departmental earnings	156,001	156,001	159,599	3,598
Costs and fines				
Investment income	10,001	10,001	5,087	(4,914)
Rents				
Payments in lieu of taxes				
Other revenues	501	501	150	(351)
Total revenues	<u>37,882,417</u>	<u>32,651,152</u>	<u>30,933,810</u>	<u>(1,717,342)</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	37,190,312	31,959,125	30,892,988	1,066,137
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>37,190,312</u>	<u>31,959,125</u>	<u>30,892,988</u>	<u>1,066,137</u>
Excess of revenues over (under) expenditures	<u>692,105</u>	<u>692,027</u>	<u>40,822</u>	<u>(651,205)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	322,733	759,707	509,706	(250,001)
Indirect cost allocation in				
Operating transfers out	(516,415)	(318,161)	(318,160)	1
Indirect cost allocation out	(498,423)	(498,423)	(498,423)	0
Total other financing sources (uses)	<u>(692,105)</u>	<u>(56,877)</u>	<u>(306,877)</u>	<u>(250,000)</u>
Net change in fund balances	0	635,150	(266,055)	(901,205)
Fund balance, January 1	0	586,108	586,141	33
Fund balance, December 31	<u>\$ 0</u>	<u>\$ 1,221,258</u>	<u>\$ 320,086</u>	<u>\$ (901,172)</u>

