

*County of Lehigh,
Pennsylvania*

December 31, 2002

*Financial Statements
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2002

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' 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 COUNTY OF LEHIGH as of and for the year ended December 31, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the COUNTY OF LEHIGH. Our responsibility is to express an opinion 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 the 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, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2002 the COUNTY OF LEHIGH adopted the provisions of Governmental Accounting Standards Board's Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments", Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", and Statement No. 39, "Determining Whether Certain Organizations are Component Units".

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Board of Commissioners
County of Lehigh

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
May 23, 2003

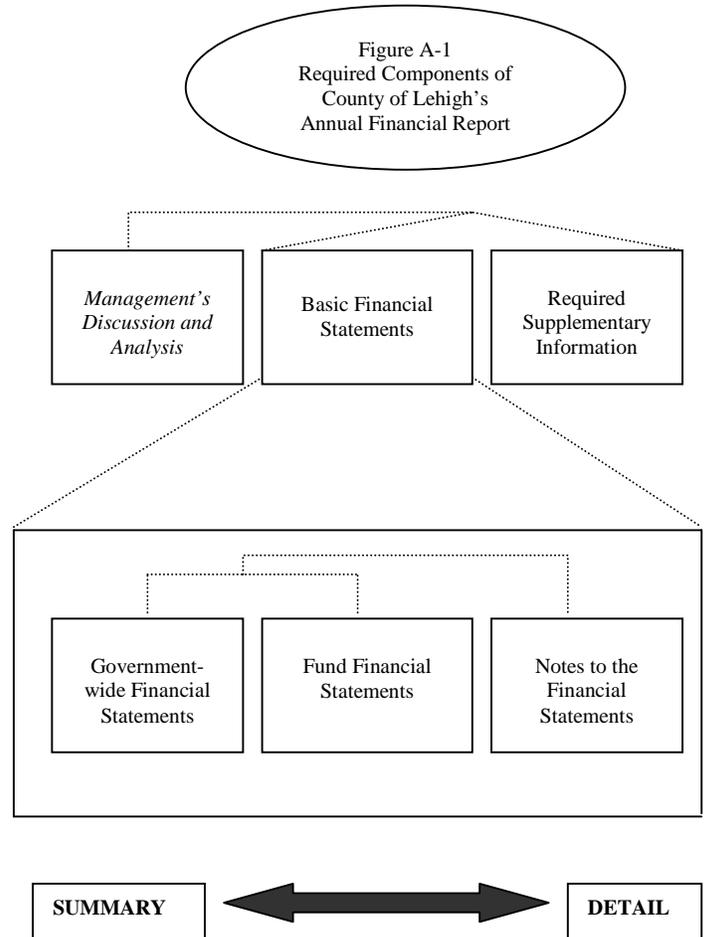
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2002. 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 one 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.

The government-wide financial statements of the County are divided into two categories:

- *Governmental activities* - Most of the County's basic services are included here, such as operation of general government, human services, corrections, and court system. Property taxes and federal and state grants finance most of these activities.

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

Net Assets: The government-wide financial statements were designed so that the user could determine if the County is in a better or worse financial condition from the prior year. The County's Net Assets decreased by \$18.9 million between 2001 and 2002. (See Table A-1)

The following is a condensed summary of net assets for the years 2002 and 2001.

Table A-1
County of Lehigh's Net Assets

	Total Governmental Activities		Total Business - Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Current and other assets	\$ 86,665,346	\$ 82,714,912	\$ 1,124,774	\$ 716,551	\$ 87,790,120	\$ 83,431,463
Capital assets	143,933,113	142,155,565	1,687,631	1,770,546	145,620,744	143,926,111
Total Assets	230,598,459	224,870,477	2,812,405	2,487,097	233,410,864	227,357,574
Long-term debt outstanding	127,244,611	120,823,160			127,244,611	120,823,160
Other liabilities	48,696,705	67,960,231	37,510	43,513	48,734,215	68,003,744
Total liabilities	175,941,316	188,783,391	37,510	43,513	175,978,826	188,826,904
Net assets:						
Invested in capital assets, net of related debt	10,266,782	14,910,954	1,687,631	1,770,546	11,954,413	16,681,500
Restricted	22,160,207	18,245,796			22,160,207	18,245,796
Unrestricted	22,230,154	2,930,336	1,087,264	673,038	23,317,418	3,603,374
Total net assets	\$ 54,657,143	\$ 36,087,086	\$ 2,774,895	\$ 2,443,584	\$ 57,432,038	\$ 38,530,670

Other Liabilities increased approximately 39.6% to \$68 million largely due to recording a liability in the Health Choices Fund, reflecting its first full year of operations.

Investment in capital assets, net of related debt increased approximately 39.5% due largely to the recording of bridge infrastructure and agricultural land easements acquired by the County.

Restricted Assets decreased approximately 17.7% due to the usage of bond proceeds to purchase capital assets.

Unrestricted Assets decreased approximately 84.5% due to the usage of accumulated cash balances to maintain current tax rates, and to maintain continuity in the level of services provided.

Changes in Net Assets:

The County's total revenues were \$261.4 million. Nearly 66%, or \$174 million, is received from the State and Federal government in the form of grants. Another 22% is received in Tax Revenue and 8% in Departmental earnings.

The County expenditures totaled \$277.6 million. The Human Services and Nursing Homes function comprise approximately 61% of the total expenditures. The Corrections and Courts functions comprise approximately 16% of the total expenditures.

In future years, when prior year information is available, a comparable analysis of government wide data will be presented in full.

Financial Analysis of the Government's Funds

The County's Governmental funds combined fund balances comprised \$34.9 million, which is approximately a \$18 million decrease from the prior year. The primary reasons for this decrease were:

- The usage of \$3.3 million for Bond Financed Improvements
- The usage of approximately \$16 million in reserves to maintain current tax rates and level of services.
- The Health Choices Fund Balance increased approximately \$1.8 million, during its first full year of operation.

General Fund Budgetary Highlights

Differences between the original adopted and the final amended budget in the general fund were not significant. The final amended expenditure budget increased \$6.6 million or 3.6 percent. Some of the highlights are as follows:

Budgeted Amounts:

- \$2.1 million increase for the Rodale Aquatic Center for Civic Health Grant
- \$.4 million increase in Sports Fields Grants
- \$2 million increase in Juvenile Placement Costs

Actual Amounts:

- \$770,000 increase in Property Tax Collections
- \$1.1 million decrease in Grant reimbursement due to occupancy and case mix at the Nursing Homes
- \$550,000 Act 101 Grant not received
- \$1.2 million decrease in interest earnings due to lower interest rates and reserves
- \$800,000 decrease in funding for the Nursing Homes
- \$460,000 capital items not completed in 2002

Capital Assets

The following is a schedule of the County's Capital Assets as of December 31, 2001 and December 31, 2002:

**Table A-2
County of Lehigh's Capital Assets**

	Total Governmental Activities		Total Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Land	\$ 10,157,312	\$ 10,151,312	\$ 236,533	\$ 236,533	\$ 10,393,845	\$ 10,387,845
Buildings and improvements	113,798,308	110,840,308	1,390,581	1,490,194	115,188,889	112,330,502
Machinery and equipment	8,067,512	8,772,606	54,303	39,383	8,121,815	8,811,989
Furniture and Fixtures	1,537,662	1,371,097	6,214	4,436	1,543,876	1,375,533
Easements	4,670,932	5,495,334			4,670,932	5,495,334
Infrastructure	5,249,119	5,196,213			5,249,119	5,196,213
Other Capital Assets	452,268	328,695			452,268	328,695
Total	\$ 143,933,113	\$ 142,155,565	\$ 1,687,631	\$ 1,770,546	\$ 145,620,744	\$ 143,926,111

Noteworthy capital asset purchases/projects that took place in 2002 were as follows:

- Purchased additional land easements for Agricultural Land Preservation
- Continuation of the Courthouse Renovation project
- Upgraded Vehicle fleet
- Continuation of the Sports Fields project
- Upgraded the Computer Network
- Installed Computer Aided Dispatch System

Additional information of the County's Capital Assets can be found in Note 6 on page 32.

Debt Administration

At year-end the County had \$127.2 million in general obligation bonds outstanding – a decrease of 4.8 percent over last year – as shown in Table A-3.

Table A-3
County of Lehigh's Outstanding Debt

	<u>Total</u>		<u>Percentage</u>
	<u>2001</u>	<u>2002</u>	<u>Change</u>
			<u>2001- 2002</u>
General obligation bonds payable	\$ 133,666,331	\$ 127,244,611	(4.8%)
Accreted interest obligation	3,313,125	2,703,774	(18.4%)
Total	<u>\$ 136,979,456</u>	<u>\$ 129,948,385</u>	(5.1%)

The County maintains a Aa3 rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue. The current debt limitation for the County of Lehigh is \$475 million, in accordance with the County's most recent bond issuance, which is significantly in excess of the County's outstanding general obligation debt.

In 2002, the voters approved the expenditure of up to \$30 million for the preservation of agricultural and open space land and for park improvements in the County. At this time, the County has not authorized additional debt for these projects.

More detailed information about the County's long-term liabilities is presented in Note 3 on Page 29.

Economic Factors and Next Year's Budgets and Rates

- Unemployment now stands at 5.8 percent versus 5.3 percent a year ago and has reached a seven-year high. This is lower than the state's rate of 5.9 percent and the national rate of 6 percent.
- Inflation in the Lehigh Valley (Lehigh and Northampton counties) is lower than the national consumer price index data due to housing prices.
 - County inflation was 2.1 percent for year-end 2002.
 - The national rate was 2.4 percent.

These indicators were taken into account when adopting the general fund budget for 2003.

Property taxes increased from 7.31 to 12.39 mills in 2003, or an increase of 69.5%. Some of the major factors for this increase are: Depletion of reserves of approximately \$16.8 million dollars, debt service increase of \$3.6 million for an anticipated bond issuance, increase of \$7.6 million to maintain satisfactory fund balance reserves, an increase in nursing home costs of \$4.4 million, and an additional \$1 million for the placement of children.

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, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 47,495,313	\$ 659,230	\$ 48,154,543
Investments	7,468,893		7,468,893
Receivables:			
Grants	17,883,333		17,883,333
Real estate taxes	2,686,959		2,686,959
Interest and dividends	14,701		14,701
Mortgage	1,332,507		1,332,507
Other	1,716,989	607	1,717,596
Due from agency funds	389,682		389,682
Other	3,726,535	56,714	3,783,249
Capital assets (net of accumulated depreciation)	142,155,565	1,770,546	143,926,111
Total assets	<u>224,870,477</u>	<u>2,487,097</u>	<u>227,357,574</u>
LIABILITIES			
Accounts payable	14,255,109	24,210	14,279,319
Deposits and agency amounts payable	16,596,100	15,291	16,611,391
Accrued payroll and payroll taxes	1,736,647	1,636	1,738,283
Accrued vacation and other compensation	8,296,178		8,296,178
Due to other governmental units	834,910		834,910
Deferred revenues:			
Grants	8,325,085		8,325,085
Other	3,380,967	2,376	3,383,343
Accrued worker's compensation	5,410,010		5,410,010
Long-term obligations payable:			
Due within one year	6,421,451		6,421,451
Due in more than one year	120,823,160		120,823,160
Accreted interest obligation	2,703,774		2,703,774
Total liabilities	<u>188,783,391</u>	<u>43,513</u>	<u>188,826,904</u>
NET ASSETS			
Invested in capital assets (net of related debt)	14,910,954	1,770,546	16,681,500
Restricted for:			
Program expenditures	2,442,795		2,442,795
Encumbrances	2,335,146		2,335,146
Bond financed improvements	13,467,855		13,467,855
Unrestricted	2,930,336	673,038	3,603,374
Total net assets	<u>\$ 36,087,086</u>	<u>\$ 2,443,584</u>	<u>\$ 38,530,670</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, 2002

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	\$ 9,704,711	\$ 2,411,536	\$ 5,037,211	\$ 900,448	\$ (6,178,588)		\$ (6,178,588)
County executive	2,486,432	(459,758)	1,152		(2,025,522)		(2,025,522)
Administration	35,598,815	(9,324,340)	7,891,324	3,949,714	(14,433,437)		(14,433,437)
Planning	2,714,284	196,039	481,142	744,466	(1,684,715)		(1,684,715)
Human services	122,353,554	1,578,123	836,717	116,953,734	(6,141,226)		(6,141,226)
Nursing homes	47,972,670	2,568,349	5,833,967	40,479,950	(4,227,102)		(4,227,102)
Corrections	21,263,896	729,297	2,211,378	1,644,934	(18,136,881)		(18,136,881)
Department of law	687,690	(792,206)	127,807		232,323		232,323
Courts	22,527,828	2,919,050	3,602,947	6,326,062	(15,517,869)		(15,517,869)
Development	3,937,355	149,878	73,800	2,579,388	(1,434,045)		(1,434,045)
Interest on long-term debt	6,555,879				(6,555,879)		(6,555,879)
Total governmental activities	<u>\$ 275,803,114</u>	<u>\$ (24,032)</u>	<u>\$ 26,097,445</u>	<u>\$ 173,578,696</u>	<u>\$ (76,102,941)</u>		<u>\$ (76,102,941)</u>
Business-type activities:							
Enterprise funds	<u>\$ 1,201,965</u>	<u>\$ 24,032</u>	<u>\$ 1,466,480</u>			<u>\$ 240,483</u>	<u>\$ 240,483</u>
Total primary government	<u>\$ 277,005,079</u>	<u>\$ 0</u>	<u>\$ 27,563,925</u>	<u>\$ 173,578,696</u>	<u>\$ (76,102,941)</u>	<u>\$ 240,483</u>	<u>\$ (75,862,458)</u>
			General revenues:				
			Taxes		57,445,976		57,445,976
			Unrestricted investment earnings		2,245,568	19,546	2,265,114
			Transfers		591,340	(591,340)	0
			Total general revenues and transfers		<u>60,282,884</u>	<u>(571,794)</u>	<u>59,711,090</u>
			Change in net assets		<u>(15,820,057)</u>	<u>(331,311)</u>	<u>(16,151,368)</u>
			Net assets, January 1		<u>51,907,143</u>	<u>2,774,895</u>	<u>54,682,038</u>
			Net assets, December 31		<u>\$ 36,087,086</u>	<u>\$ 2,443,584</u>	<u>\$ 38,530,670</u>

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

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2002

	General	Mental Health and Mental Retardation	Health Choices	Bond Fund 2001	Bond Fund 2001 Cedarbrook	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 4,915,764	\$ 8,412,527	\$ 17,515,522	\$ 11,432,883	\$ 3,490,740	\$ 1,283,152	\$ 47,050,588
Investments	7,468,893						7,468,893
Receivables:							
Grants	15,349,106	126,739	31,266			2,376,222	17,883,333
Real estate taxes	2,686,959						2,686,959
Interest and dividends	14,701						14,701
Mortgage	1,332,507						1,332,507
Other	1,619,500	74,525	167			22,797	1,716,989
Due from other funds	941,294	25,413				78,963	1,045,670
Other	273,281	783,064				2,670,190	3,726,535
Total assets	<u>\$ 34,602,005</u>	<u>\$ 9,422,268</u>	<u>\$ 17,546,955</u>	<u>\$ 11,432,883</u>	<u>\$ 3,490,740</u>	<u>\$ 6,431,324</u>	<u>\$ 82,926,175</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	8,549,969	4,569,560	90,135	122,321	11,947	883,243	14,227,175
Deposits and agency amounts payable	1,008,027		15,588,073				16,596,100
Payroll and payroll taxes	1,639,262	50,860	1,952			37,477	1,729,551
Due to other governmental units	834,910						834,910
Due to other funds	78,963		25,413			551,612	655,988
Deferred revenues:							
Grants	2,237,406	4,801,848				1,285,831	8,325,085
Real estate taxes	2,233,127						2,233,127
Other	710,917					2,670,050	3,380,967
Total liabilities	<u>17,292,581</u>	<u>9,422,268</u>	<u>15,705,573</u>	<u>122,321</u>	<u>11,947</u>	<u>5,428,213</u>	<u>47,982,903</u>
Fund balances:							
Reserved for:							
Program expenditures	601,413		1,841,382				2,442,795
Encumbrances	938,912			414,916	906,584	74,734	2,335,146
Bond financed improvements				10,895,646	2,572,209		13,467,855
Unreserved	15,769,099					928,377	16,697,476
Total fund balances	<u>17,309,424</u>	<u>0</u>	<u>1,841,382</u>	<u>11,310,562</u>	<u>3,478,793</u>	<u>1,003,111</u>	<u>34,943,272</u>
Total liabilities and fund balances	<u>\$ 34,602,005</u>	<u>\$ 9,422,268</u>	<u>\$ 17,546,955</u>	<u>\$ 11,432,883</u>	<u>\$ 3,490,740</u>	<u>\$ 6,431,324</u>	<u>\$ 82,926,175</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, 2002

Total *fund balances* for governmental funds \$ 34,943,272

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	10,151,312
Buildings and improvements, net of \$61,995,161 accumulated depreciation	110,840,308
Machinery and equipment, net of \$28,652,059 accumulated depreciation	8,772,606
Furniture and fixtures, net of \$2,241,344 accumulated depreciation	1,371,097
Easements, net of \$736,669 accumulated depreciation	5,495,334
Infrastructure, net of \$832,686 accumulated depreciation	5,196,213
Other capital assets, net of \$1,185,535 accumulated depreciation	<u>328,695</u>

Total capital assets 142,155,565

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.

409,695

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 deferred revenue in the funds.

2,233,127

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, 2002 are:

Accreted interest obligation	(2,703,774)
Bonds and notes payable	(127,244,611)
Accrued vacation and other compensation	(8,296,178)
Accrued worker's compensation	<u>(5,410,010)</u>

(143,654,573)

Total net assets of governmental activities \$ 36,087,086

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, 2002

	General	Mental Health and Mental Retardation	Health Choices	Bond Fund 2001	Bond Fund 2001 Cedarbrook	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 57,627,281						\$ 57,627,281
Grants and reimbursements	93,412,603	\$ 35,354,018	\$ 36,052,948			\$ 8,759,127	173,578,696
Departmental earnings	21,752,417	70,418				1,271	21,824,106
Judicial costs and fines	2,854,347					54,232	2,908,579
Investment income	1,351,496	217,317	52,783	\$ 295,009	\$ 77,783	251,180	2,245,568
Rents	146,650					415	147,065
Other	763,417	392,982				61,296	1,217,695
Total revenues	<u>177,908,211</u>	<u>36,034,735</u>	<u>36,105,731</u>	<u>295,009</u>	<u>77,783</u>	<u>9,127,521</u>	<u>259,548,990</u>
EXPENDITURES							
Elected officials	9,449,943			99,105		133,926	9,682,974
County executive	2,482,729						2,482,729
Administration	31,781,003			2,175,398		2,951,831	36,908,232
Planning	2,198,203			911,878			3,110,081
Human services	46,582,321	36,762,151	34,313,679			5,182,010	122,840,161
Nursing homes	46,465,967				143,769	322,465	46,932,201
Corrections	19,214,808			233,508		104,441	19,552,757
Department of law	680,198						680,198
Courts	19,125,601			89,823		3,130,648	22,346,072
Development	3,850,091						3,850,091
Indirect cost allocation charges	(827,127)	478,712	16,397			307,986	(24,032)
Debt Service:							
Principal retirement						6,421,720	6,421,720
Interest						7,165,230	7,165,230
Total expenditures	<u>181,003,737</u>	<u>37,240,863</u>	<u>34,330,076</u>	<u>3,509,712</u>	<u>143,769</u>	<u>25,720,257</u>	<u>281,948,414</u>
Excess of revenues over (under) expenditures	<u>(3,095,526)</u>	<u>(1,206,128)</u>	<u>1,775,655</u>	<u>(3,214,703)</u>	<u>(65,986)</u>	<u>(16,592,736)</u>	<u>(22,399,424)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	3,587,848	1,409,833				16,800,804	21,798,485
Operating transfers out	(16,925,825)	(203,705)	(11,523)			(356,765)	(17,497,818)
Total other financing sources / (uses)	<u>(13,337,977)</u>	<u>1,206,128</u>	<u>(11,523)</u>	<u>0</u>	<u>0</u>	<u>16,444,039</u>	<u>4,300,667</u>
Net change in fund balances	<u>(16,433,503)</u>	<u>0</u>	<u>1,764,132</u>	<u>(3,214,703)</u>	<u>(65,986)</u>	<u>(148,697)</u>	<u>(18,098,757)</u>
Fund balances, January 1, as Restated	<u>33,742,927</u>	<u>0</u>	<u>77,250</u>	<u>14,525,265</u>	<u>3,544,779</u>	<u>1,151,808</u>	<u>53,042,029</u>
Fund balances, December 31	<u>\$ 17,309,424</u>	<u>\$ 0</u>	<u>\$ 1,841,382</u>	<u>\$ 11,310,562</u>	<u>\$ 3,478,793</u>	<u>\$ 1,003,111</u>	<u>\$ 34,943,272</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, 2002

Net change in *fund balances* – total governmental funds \$ (18,098,757)

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 depreciation (\$7,845,572) exceeded capital outlays (\$6,068,024) in the current period. (1,777,548)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. 6,421,720

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 four balances.

Accrued worker’s compensation	(541,293)	
Accrued vacation and other compensation	(700,582)	
Accrued interest on bonds	609,351	
Deferred real estate tax revenue	<u>(181,305)</u>	
		(813,829)

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 expenses of the internal service fund (net of \$831,317 depreciation which is included in the capital outlays adjustment above) are included in the governmental activities. (1,551,643)

Change in net assets of governmental activities \$ (15,820,057)

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

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2002

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 693,698	
Prison commissary revenues	772,782	
Government Center revenues		\$ 3,159,650
Total operating revenues	<u>1,466,480</u>	<u>3,159,650</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	555,506	
Prison commissary	494,096	
Government Center		1,024,998
Depreciation	152,363	831,317
Indirect cost allocation charges	24,032	
Total operating expenses	<u>1,225,997</u>	<u>1,856,315</u>
OPERATING INCOME	<u>240,483</u>	<u>1,303,335</u>
NONOPERATING REVENUES	<u>19,546</u>	<u>37,035</u>
OTHER FINANCING USES		
Transfers out	<u>(591,340)</u>	<u>(3,709,327)</u>
Change in net assets	(331,311)	(2,368,957)
Total net assets, January 1, as Restated	<u>2,774,895</u>	<u>(1,574,907)</u>
Total net assets, December 31	<u>\$ 2,443,584</u>	<u>\$ (3,943,864)</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, 2002

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,451,161	\$ 3,220,002
Payments to suppliers	(812,249)	(396,806)
Payments to employees	(182,171)	(504,966)
Payments of benefits on behalf of employees	(49,179)	(128,470)
Indirect cost allocation charges	(24,032)	
Net cash provided by operating activities	383,530	2,189,760
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(591,340)	(3,709,327)
Net cash used for noncapital financing activities	(591,340)	(3,709,327)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property, plant and equipment	(235,278)	(14,003)
Net cash used for capital and related financing activities	(235,278)	(14,003)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	19,546	37,035
Net cash provided by investing activities	19,546	37,035
Net decrease in cash and cash equivalents	(423,542)	(1,496,535)
Cash and cash equivalents, January 1	1,082,772	1,941,260
Cash and cash equivalents, December 31	\$ 659,230	\$ 444,725
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 240,483	\$ 1,303,335
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation expense	152,363	831,317
Change in assets and liabilities:		
Increase in other receivables	(144)	
Decrease in due from other funds		60,352
Increase in other assets	(15,175)	
Increase / (decrease) in accounts payable	4,323	(9,020)
Increase in deposits and agency amounts payable	216	
Increase in payroll and payroll taxes payable	888	3,776
Increase in other deferred revenues	576	
Net cash provided by operating activities	\$ 383,530	\$ 2,189,760

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, 2002

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 7,820,263	\$ 10,154,166
Investments, at fair value:		
United States government and municipal obligations	34,989,590	
Corporate and foreign bonds	16,155,656	
Broad market index	35,842,093	
Collateralized mortgages	3,686,160	
Domestic and foreign stocks	135,467,918	
Total investments	<u>226,141,417</u>	
Receivables:		
Interest and dividends	470,240	
Due from broker	86,331	
Employee contributions	69,866	
Other		91,696
Total receivables	<u>626,437</u>	<u>91,696</u>
Total assets	<u>234,588,117</u>	<u>\$ 10,245,862</u>
LIABILITIES		
Accounts payable	112,342	57,560
Deposits and agency amounts payable		6,365,798
Due to other governmental units		3,432,822
Due to other funds		389,682
Withdrawals payable	87,572	
Pension benefits payable	13,349	
Total liabilities	<u>213,263</u>	<u>\$ 10,245,862</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 234,374,854</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, 2002

	Employee Retirement Plan
ADDITIONS	
Contributions:	
Employee	\$ 4,727,447
Investment income:	
Interest and dividend income	6,509,637
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	462,055
Corporate and foreign bonds	299,253
Broad market index	3,409,984
Collateralized mortgages	108,902
Domestic and foreign stocks	(34,267,581)
	(29,987,387)
Less investment expenses	(821,835)
Net investment income	(24,299,585)
Other expenses	284
Total additions	(19,571,854)
DEDUCTIONS	
Employee contributions refunded	972,070
Retirement benefits paid	9,141,427
Death benefits paid	73,502
Administrative expense	28,716
Total deductions	10,215,715
Change in net assets	(29,787,569)
Net assets, January 1, as Restated	264,162,423
Net assets, December 31	\$ 234,374,854

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, 2002

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. 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 2002, Lehigh County paid \$375,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2002, Lehigh County provided \$290,000 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 equity, 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 120 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 and Mental Retardation Fund, Health Choices Fund, Bond Fund 2001, and Bond Fund 2001 Cedarbrook.

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, the court system and the administration of health, welfare and medical assistance programs (other than Mental Health and Mental Retardation, Drug and Alcohol, and Health Choices) are accounted for in this Fund.

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

The Bond Fund 2001 is used to account for the financial resources stipulated to be used for the construction and/or reconstruction of County facilities.

The Bond Fund 2001 Cedarbrook is used to account for the financial resources stipulated to be used for the construction and/or reconstruction of the County’s nursing home facilities.

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 Funds

- 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.
- The Prison Commissary Fund is used to account for income generated from prison commissary sales to be used within the correctional facilities.

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.

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 dates relevant to the collection of delinquent 2002 real estate taxes are as follows:

July 31, 2003	Notices of unpaid delinquent taxes must be mailed by the County.
September 3, 2004	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 13, 2004	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.
January 1, 2005	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 \$1,000 (\$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. Construction period interest has not been capitalized on capital assets. 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 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
Equipment	5-15 years
Furniture and fixtures	8-15 years
Easements	40 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.

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.

Interfund Transactions

As a result of its operations, 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.

Adoption of Governmental Accounting Standards Board Statements

The County adopted the provisions of GASB's Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments", Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis – For State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures".

The adoption of these statements resulted in a comprehensive modification of the financial reporting required for the County. The statements require the presentation of the Government-wide Financial Statements that had not been previously reported. The Fund Level Financial Statements required by these statements are similar to the financial statements that have been previously been issued by the County.

The adoption of these statements resulted in various restatements of fund equity and net assets. See Notes 6 and 10 for details on these restatements.

NOTE 2 CASH AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet in the "Cash and cash equivalents" caption. The County also invests in government obligations, corporate bonds, common stocks, certificates of deposit and interest-bearing accounts such as money market funds.

Deposits

The carrying amount of the County's cash and cash equivalents was \$66,128,972 and the bank balance of such accounts was \$71,346,155. In accordance with Pennsylvania statute, the bank balance is either entirely insured or collateralized by pledged pools of assets maintained by the financial institutions where the County's accounts are deposited.

Investments

Investments of governmental units are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Interest-bearing accounts can not be categorized due to the nature of the investment. Categorized investments at December 31, 2002 are as follows:

	<u>Category</u>			
	<u>1</u>	<u>2</u>	<u>Uncategorized</u>	<u>Total</u>
United States government and municipal bonds		\$ 42,458,483		\$ 42,458,483
Corporate and foreign bonds		16,155,656		16,155,656
Domestic and foreign common stocks		135,467,918		135,467,918
Collateralized mortgages		3,686,160		3,686,160
Broad market bond index		35,842,093		35,842,093
Interest bearing and noninterest bearing accounts			\$ 65,359,780	65,359,780
Certificates of deposit	\$ 769,192			769,192
	<u>\$ 769,192</u>	<u>\$ 233,610,310</u>	<u>\$ 65,359,780</u>	<u>\$ 299,739,282</u>

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, 2002:

	Balance at January 1, 2002	Additions	Retirements	Balance at December 31, 2002
Accrued vacation and other compensation	\$ 7,595,596	\$ 700,582		\$ 8,296,178
Accrued worker's compensation	4,868,717	2,019,553	\$ (1,478,260)	5,410,010
General obligation bonds payable	133,666,331		(6,421,720)	127,244,611
Accreted interest obligation on capital appreciation bonds	3,313,125	298,749	(908,100)	2,703,774
	<u>\$ 149,443,769</u>	<u>\$ 3,018,884</u>	<u>\$ (8,808,080)</u>	<u>\$ 143,654,573</u>

The following is a summary of general obligation bonds payable of the County for the year ended December 31, 2002:

General Long-Term Obligations

\$28,376,380 1989 Refunding Bonds – Capital appreciation bonds due in annual installments of \$1,700,000 from October 15, 2003 through October 15, 2005 with approximate yields to maturity varying from 6.75% to 6.80%	1,864,611
\$99,505,000 1993 General Obligation Refunding Bonds, serial bonds due in annual installments of \$2,915,000 to \$5,160,000 through November 15, 2009, interest rates vary from 4.65% to 5.125%; term bonds due November 15, 2011 with maturity of \$5,100,000 in 2010 and \$2,615,000 in 2011 with an approximate yield to maturity of 5.40%	38,185,000
\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$830,000 to \$12,150,000 through November 15, 2016, interest rates vary from 3.00% to 5.00%	<u>87,195,000</u>
	<u>\$ 127,244,611</u>

The annual requirements to amortize all general obligation bonds payable as of December 31, 2002 are as follows:

<u>Fiscal Year</u>	<u>General Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 6,421,451	\$ 7,163,268	\$ 13,584,719
2004	6,629,106	6,956,700	13,585,806
2005	6,859,054	6,726,152	13,585,206
2006	8,290,000	5,294,121	13,584,121
2007	8,630,000	4,954,784	13,584,784
2008 – 2012	50,075,000	17,867,337	67,942,337
2013 – 2017	40,340,000	4,663,500	45,003,500
	<u>\$ 127,244,611</u>	<u>\$ 53,625,862</u>	<u>\$ 180,870,473</u>

NOTE 4 DEFEASED DEBT

Details of debt defeased by the County of Lehigh in prior years for which bonds remain outstanding at December 31, 2002 are as follows:

General Obligation Bond Issue and Final Maturity	Interest Rate	Amount Outstanding at December 31, 2002
Series A of 1989	6.00%	\$ 11,870,000
Series of 1991	6.80% - 6.90%	\$ 21,150,000
Series of 1993	4.50% - 5.125%	\$24,905,000
Series of 1996	4.90% - 5.70%	\$38,815,000

These bonds, which were previously issued by the County, are now payable, as to principal and interest thereon, from proceeds of irrevocably pledged assets, primarily U.S. Government investments. The investments are held by the Refunded Bond Trustee, and principal and interest payments are scheduled to coincide with Trustee cash requirements for debt service.

Under the defeasance indenture, the principal and interest on the defeased bonds are to be paid as such become due, to and including their final maturity date or call date.

The bonds described above and the investments pledged for their redemption are not recognized on the County's balance sheet in accordance with the terms of the Indentures of Defeasance.

NOTE 5 INTERFUND BALANCES

Interfund receivable and payable balances of each individual fund as of December 31, 2002 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$ 551,612
General Fund	Agency Fund	389,682
Mental Health and Mental Retardation Fund	Health Choices Fund	25,413
Nonmajor Governmental Fund	General Fund	<u>78,963</u>
		<u>\$ 1,045,670</u>

These receivable and payable balances represent amounts due for one fund paying expenses on another funds behalf or a fund collecting fees or charges that are due to another fund.

Interfund transfers to and transfers from of each individual fund for the year ended December 31, 2002 are as follows:

Transfer In:

	<u>General Fund</u>	<u>Mental Health and Mental Retardation Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Transfer out:				
General Fund		\$ 1,409,833	\$ 15,515,992	\$ 16,925,825
Mental Health and Mental Retardation Fund	\$ 203,705			203,705
Health Choices Fund	11,523			11,523
Nonmajor Governmental Fund	356,765			356,765
Enterprise Fund	590,347		993	591,340
Internal Service Fund	<u>2,425,508</u>		<u>1,283,819</u>	<u>3,709,327</u>
	<u>\$ 3,587,848</u>	<u>\$ 1,409,833</u>	<u>\$ 16,800,804</u>	<u>\$ 21,798,485</u>

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.

NOTE 6 CAPITAL ASSETS

The capital asset ending balances for 2001 were adjusted with the adoption of GASB No. 34 to capitalize infrastructure and land easement assets as well as to recognize previously capitalized infrastructure in the proper asset categories.

	12/31/2001 Ending Balance	12/31/2001 Internal Service Fund	Infrastructure and Easement Additions	Categorical and Other Adjustments	1/1/2002 Beginning Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$10,096,553			\$60,759	\$10,157,312
Capital assets, being depreciated:					
Buildings and improvements	152,887,348	\$20,657,657		(1,868,963)	171,676,042
Machinery and equipment	33,914,573	1,021,483		748,771	35,684,827
Furniture and fixtures	2,422,251	1,068,494		39,606	3,530,351
Easements			\$5,263,902		5,263,902
Infrastructure			4,290,406	1,643,838	5,934,244
Other capital assets	1,532,436				1,532,436
Total capital assets, being depreciated	190,756,608	22,747,634	9,554,308	563,252	223,621,802
Total capital assets, historical cost	200,853,161	22,747,634	9,554,308	624,011	233,779,114
Less accumulated depreciation for:					
Buildings and improvements	(55,655,641)	(2,222,093)			(57,877,734)
Machinery and equipment	(26,801,055)	(816,260)			(27,617,315)
Furniture and fixtures	(1,709,299)	(283,390)			(1,992,689)
Easements			(592,970)		(592,970)
Infrastructure			(685,125)		(685,125)
Other capital assets	(1,080,168)				(1,080,168)
Total accumulated depreciation	(85,246,163)	(3,321,743)	(1,278,095)	0	(89,846,001)
Total capital assets, net of accumulated depreciation	\$115,606,998	\$19,425,891	\$8,276,213	\$624,011	\$143,933,113
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$299,792			(\$63,259)	\$236,533
Capital assets, being depreciated:					
Buildings and improvements	4,958,994			209,779	5,168,773
Machinery and equipment	366,229			(224,097)	142,132
Furniture and fixtures	103,572			(75,529)	28,043
Total capital assets, being depreciated	5,428,795			(89,847)	5,338,948
Total capital assets, historical cost	5,728,587			(153,106)	5,575,481
Less accumulated depreciation for:					
Buildings and improvements	(3,720,882)			(57,310)	(3,778,192)
Machinery and equipment	(263,230)			175,401	(87,829)
Furniture and fixtures	(56,844)			35,015	(21,829)
Total accumulated depreciation	(4,040,956)			153,106	(3,887,850)
Total capital assets, net of accumulated depreciation	\$1,687,631			\$0	\$1,687,631

Capital asset activity for the year ended December 31, 2002 was as follows:

Governmental Activities:	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$10,157,312		(\$6,000)	\$10,151,312
Capital assets, being depreciated:				
Buildings and improvements	171,676,042	\$2,204,740	(1,045,313)	172,835,469
Machinery and equipment	35,684,827	3,610,903	(1,871,065)	37,424,665
Furniture and fixtures	3,530,351	141,151	(59,061)	3,612,441
Easements	5,263,902	968,101		6,232,003
Infrastructure	5,934,244	94,655		6,028,899
Other capital assets	1,532,436		(18,206)	1,514,230
Total capital assets, being depreciated	<u>223,621,802</u>	<u>7,019,550</u>	<u>(2,993,645)</u>	<u>227,647,707</u>
Total capital assets, historical cost	<u>233,779,114</u>	<u>7,019,550</u>	<u>(2,999,645)</u>	<u>237,799,019</u>
Less accumulated depreciation for:				
Buildings and improvements	(57,877,734)	(4,467,482)	350,055	(61,995,161)
Machinery and equipment	(27,617,315)	(2,671,526)	1,636,782	(28,652,059)
Furniture and fixtures	(1,992,689)	(307,716)	59,061	(2,241,344)
Easements	(592,970)	(143,699)		(736,669)
Infrastructure	(685,125)	(147,561)		(832,686)
Other capital assets	(1,080,168)	(107,588)	2,221	(1,185,535)
Total accumulated depreciation	<u>(89,846,001)</u>	<u>(7,845,572)</u>	<u>2,048,119</u>	<u>(95,643,454)</u>
Total capital assets, net of accumulated depreciation	<u>\$143,933,113</u>	<u>(\$826,022)</u>	<u>(\$951,526)</u>	<u>\$142,155,565</u>
Business-type activities:	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$236,533			\$236,533
Capital assets, being depreciated:				
Buildings and improvements	5,168,773	\$235,278		5,404,051
Machinery and equipment	142,132			142,132
Furniture and fixtures	28,043			28,043
Total capital assets, being depreciated	<u>5,338,948</u>	<u>235,278</u>		<u>5,574,226</u>
Total capital assets, historical cost	<u>5,575,481</u>	<u>235,278</u>		<u>5,810,759</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,778,192)	(135,665)		(3,913,857)
Machinery and equipment	(87,829)	(14,920)		(102,749)
Furniture and fixtures	(21,829)	(1,778)		(23,607)
Total accumulated depreciation	<u>(3,887,850)</u>	<u>(152,363)</u>		<u>(4,040,213)</u>
Total capital assets, net of accumulated depreciation	<u>\$1,687,631</u>	<u>\$82,915</u>		<u>\$1,770,546</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 151,844
Executive	25,544
Administration	3,653,936
Planning	567,577
Human services	137,489
Nursing homes	1,376,694
Corrections	1,472,087
Department of law	6,371
Courts	356,128
Development	<u>97,902</u>
 Total depreciation expense-governmental activities	 <u>\$ 7,845,572</u>
 Total depreciation expense - business-type activities - enterprise funds	 <u>\$ 152,363</u>

NOTE 7 EMPLOYEES' RETIREMENT FUND AND OTHER POSTEMPLOYMENT BENEFITS

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, except those employed on a part-time basis, are eligible 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 First Union Bank, the Plan's custodian. The Plan is administered by the Retirement Board of Trustees, which invests plan assets based on recommendations from Delaware International Advisers LTD, Emerald Advisers Inc., C. S. McKee & Co. Inc., Mellon Equity Associates LLP, Miller Anderson & Sherrerd LLP, Montag & Caldwell Incorporated, and Bankers Trust Company, Inc., the Plan's investment advisors.

An employee becomes fully vested after eight 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 sufficient 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, 2001. Significant actuarial assumptions used include:

Actuarial Cost Method	Aggregate **
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return*	7½%
Projected Salary Increases*	4½%
* Includes Inflation at	3%

** Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress. Separate determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used.

The net pension obligations and annual pension costs were \$0 for each of the fiscal years ended December 31, 2002, 2001, and 2000.

In addition to the pension benefits previously described, the County provides other postemployment health care benefits in accordance with County personnel policies to employees and their spouses provided that the employee--

- 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

At December 31, 2002, 658 retirees plus their spouses met these eligibility requirements. Costs for such benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2002, expenditures of approximately \$3,484,073 were recognized for such postemployment benefits.

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 \$50,000 during the policy term. Losses totaling less than \$50,000 but more than \$2,500 shall apply to an annual aggregate deductible of \$50,000. Once this aggregate of \$50,000 has been reached, the deductible for the next loss shall be \$10,000. General liability losses are covered in excess of \$150,000 applicable to each occurrence.

Healthcare

The County provides several fixed-rated premium based health care plans. The plans offered include health maintenance organizations, point of service, preferred provider organizations, and traditional programs. The traditional programs are insured for the risk of excessive loss associated with major medical costs of active employees and retirees through Capital Blue Cross. This policy permits a \$10,000 annual major medical maximum and a \$50,000 lifetime major medical maximum for employees and a \$10,000 annual major medical maximum and \$25,000 lifetime major medical maximum for retirees.

Worker's Compensation

The County is self-insured for worker's compensation losses. Excessive losses are covered by commercial insurance with a \$300,000 maximum retention per accident or employee.

Reserve balances are based on the requirements of Government Accounting Standards Board Statement Number 10. 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>
2001	\$ 4,670,460	\$ 1,033,315	\$ 300,046	\$ (69,871)	\$ (1,065,233)	\$ 4,868,717
2002	\$ 4,868,717	\$ 1,467,774	\$ 551,779	\$ (210,600)	\$ (1,267,660)	\$ 5,410,010

During 2002, 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 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.

NOTE 10 FUND BALANCE, RETAINED EARNINGS, AND NET ASSETS RESTATEMENT

On November 30, 2000, the Lehigh County Retirement Board ("Board") passed a resolution that stated under County Pension Law, the County of Lehigh ("County") has the legal authority to grant to retired employees insurance and other similar benefits that the County has granted to other County employees. The resolution was based on a legal opinion obtained which indicated it is lawful for the County to pay retiree health benefits from the excess assets of the County's Employee Retirement Fund ("Fund"). Therefore, the resolution called for a portion of the assets in the County Annuity Reserve Account of the Fund amounting to \$1,250,000 be transferred to a separate medical plan account within the Fund for the purpose of paying the actual costs of health benefit liabilities for County retirees employed prior to January 1, 1987 who met all other requirements for obtaining retiree health benefits. The resolution was to be effective January 1, 2000 and each year thereafter unless the Board takes further action. Finally, the resolution indicated that the physical transfer of assets is subject to the receipt of a favorable ruling by the Internal Revenue Service ("IRS") concerning the continued tax-favored treatment of retirees and current County employees who make contributions to, and receive benefits from, the Fund. The County received a favorable ruling from the IRS on January 9, 2003.

The Board passed a resolution during 2001 that increased the cumulative allocation total through December 31, 2001 to \$2,750,000. Based on this resolution, the County had recorded a liability in the Fund in the amount of \$2,750,000. A corresponding receivable and reduction in expenditure was recorded in the County's General Fund.

Due to the market condition effect on Fund assets, the Fund no longer has the assets to make such a distribution. As of December 31, 2002, the Board has rescinded the motions related to the transfer of funds approved for 2000 and 2001. Therefore, the net balances previously reported for the year ended December 31, 2001, have been restated as follows:

	<u>General Fund</u>	<u>Retirement Fund</u>
Balance previously reported at December 31, 2001	\$ 36,492,927	\$ 261,412,423
Restatement	<u>(2,750,000)</u>	<u>2,750,000</u>
Balance as restated at December 31, 2001	<u>\$33,742,927</u>	<u>\$ 264,162,423</u>

The adoption of GASB's Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments", Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis – For State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures" required the restatement of certain balances that were previously reported by the County at January 1, 2002. The restatements are as follows:

The County's Proprietary Funds no longer present Contributed Capital. The amounts previously reported as Contributed Capital are combined into the Net Assets balances reported for the Proprietary Funds. In addition, the Internal Service Fund was restated to report the portion of the County's outstanding General Obligation Bonds related to the construction of the Government Center in the fund. The restatements are:

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Retained Earnings, January 1, 2002, as previously reported	\$ 1,500,122	\$ 1,961,338
Reclassify Contributed Capital as Retained Earnings	1,274,773	19,425,891
Reclassify Long-Term Debt to Internal Service Fund	<u>0</u>	<u>(22,962,136)</u>
Net Assets, January 1, 2002, as restated	<u>\$ 2,774,895</u>	<u>\$ (1,574,907)</u>

The County had previously reported an expendable trust fund in its financial statements for amounts held in a trustee capacity. This fund was reclassified to an agency fund with the adoption of the new statements. Therefore, the fund balance previously reported for the expendable trust fund at January 1, 2002 in the amount of \$7,724 was restated to \$0.

COUNTY OF LEHIGH, PENNSYLVANIA
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2002

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 56,848,490	\$ 56,859,995	\$ 57,629,126	\$ 769,131
Grants and reimbursements	94,405,729	98,383,304	94,503,831	(3,879,473)
Departmental earnings	20,396,475	20,279,278	21,574,993	1,295,715
Costs and fines	2,629,501	2,629,499	2,847,377	217,878
Investment income	2,229,412	2,237,511	1,036,445	(1,201,066)
Rents	112,500	112,500	146,208	33,708
Payments in lieu of taxes	168,000	168,000	119,600	(48,400)
Other revenues	444,475	467,981	621,392	153,411
Total revenues	<u>177,234,582</u>	<u>181,138,068</u>	<u>178,478,972</u>	<u>(2,659,096)</u>
EXPENDITURES				
Elected officials	10,190,845	10,223,918	9,372,721	851,197
County executive	2,696,338	2,654,930	2,472,303	182,627
Administration	32,655,556	34,040,547	32,345,402	1,695,145
Planning	2,759,506	2,820,873	2,115,057	705,816
Human services	45,930,779	45,770,050	45,291,497	478,553
Nursing homes	47,099,577	47,272,730	46,317,636	955,094
Corrections	19,871,417	19,475,477	19,385,128	90,349
Department of law	718,311	708,891	670,486	38,405
Courts	16,298,068	19,334,649	19,130,691	203,958
Development	1,730,788	4,218,037	3,650,920	567,117
Total expenditures	<u>179,951,185</u>	<u>186,520,102</u>	<u>180,751,841</u>	<u>5,768,261</u>
Excess of revenues over (under) expenditures	<u>(2,716,603)</u>	<u>(5,382,034)</u>	<u>(2,272,869)</u>	<u>3,109,165</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	28,602,156	29,996,032	3,587,848	(26,408,184)
Indirect cost allocation in	7,085,787	7,085,787	827,127	(6,258,660)
Operating transfers out	(40,817,214)	(44,672,689)	(16,846,862)	27,825,827
Indirect cost allocation out	(6,237,077)	(6,237,077)	0	6,237,077
Total other financing sources (uses)	<u>(11,366,348)</u>	<u>(13,827,947)</u>	<u>(12,431,887)</u>	<u>1,396,060</u>
Net change in fund balances	<u>(14,082,951)</u>	<u>(19,209,981)</u>	<u>(14,704,756)</u>	<u>4,505,225</u>
Fund balances, January 1	28,592,075	27,569,542	25,171,474	(2,398,068)
Fund balances, December 31	<u>\$ 14,509,124</u>	<u>\$ 8,359,561</u>	<u>\$ 10,466,718</u>	<u>\$ 2,107,157</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 General Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2002

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ (16,433,503)	\$ 17,309,424
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2001	15,433,349	
Accrued as receivables (net of deferred revenues) at December 31, 2002 but not recognized in budget	(14,508,579)	(14,508,579)
Change in appreciation of investments	(323,628)	(2,480,276)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2001	(9,018,544)	
Accrued as liabilities at December 31, 2002 but not recognized in budget	10,146,149	10,146,149
Budgetary Basis	\$ (14,704,756)	\$ 10,466,718

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Health and Mental Retardation Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 35,812,745	\$ 39,835,202	\$ 40,431,506	\$ 596,304
Departmental earnings	35,578	35,578	58,924	23,346
Costs and fines				
Investment income	350,000	350,000	217,317	(132,683)
Rents				
Payments in lieu of taxes				
Other revenues	1	150,001	336,304	186,303
Total revenues	<u>36,198,324</u>	<u>40,370,781</u>	<u>41,044,051</u>	<u>673,270</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	37,069,503	41,284,591	37,450,965	3,833,626
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>37,069,503</u>	<u>41,284,591</u>	<u>37,450,965</u>	<u>3,833,626</u>
Excess of revenues over (under) expenditures	<u>(871,179)</u>	<u>(913,810)</u>	<u>3,593,086</u>	<u>4,506,896</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,621,909	1,427,909	1,409,833	(18,076)
Indirect cost allocation in				
Operating transfers out	(234,073)	(217,254)	(203,705)	13,549
Indirect cost allocation out	(516,657)	(500,222)	(478,712)	21,510
Total other financing sources (uses)	<u>871,179</u>	<u>710,433</u>	<u>727,416</u>	<u>16,983</u>
Net change in fund balances	0	(203,377)	4,320,502	4,523,879
Fund balances, January 1	6,940,000	4,166,377	4,117,438	(48,939)
Fund balances, December 31	<u>\$ 6,940,000</u>	<u>\$ 3,963,000</u>	<u>\$ 8,437,940</u>	<u>\$ 4,474,940</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Mental Health and Mental Retardation Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2002

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 0	\$ 0
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables at December 31, 2001	2,953,063	
Received in cash during the year but deferred at December 31, 2002	4,801,848	4,801,848
Accrued as deferred revenue at December 31, 2001 but not recognized in budget	(2,543,753)	
Accrued as receivables at December 31, 2002 but not recognized in budget	(201,264)	(201,264)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2001	(5,132,795)	
Paid in cash during the year but deferred at December 31, 2002	(783,064)	(783,064)
Accrued as deferred expenditures a December 31, 2001 but not recognized in budget	606,047	
Accrued as liabilities at December 31, 2002 but not recognized in budget	4,620,420	4,620,420
Budgetary Basis	\$ 4,320,502	\$ 8,437,940

COUNTY OF LEHIGH, PENNSYLVANIA
Health Choices Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 28,168,200	\$ 35,202,700	\$ 36,021,682	\$ 818,982
Departmental earnings				
Costs and fines				
Investment income	59,196	59,196	52,783	(6,413)
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>28,227,396</u>	<u>35,261,896</u>	<u>36,074,465</u>	<u>812,569</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	27,392,260	34,394,959	34,224,708	170,251
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>27,392,260</u>	<u>34,394,959</u>	<u>34,224,708</u>	<u>170,251</u>
Excess of revenues				
over (under) expenditures	<u>835,136</u>	<u>866,937</u>	<u>1,849,757</u>	<u>982,820</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out		(15,765)	(11,523)	4,242
Indirect cost allocation out		(16,435)	(16,397)	38
Total other financing sources (uses)	<u>0</u>	<u>(32,200)</u>	<u>(27,920)</u>	<u>4,280</u>
Net change in fund balances	835,136	834,737	1,821,837	987,100
Fund balances, January 1		399	80,199	79,800
Fund balances, December 31	<u>\$ 835,136</u>	<u>\$ 835,136</u>	<u>\$ 1,902,036</u>	<u>\$ 1,066,900</u>

