

*County of Lehigh,
Pennsylvania*

December 31, 2003

*Financial Statements
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2003

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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, 2003, 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2004, 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.

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Board of Commissioners
County of Lehigh

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 38 through 45 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

Allentown, Pennsylvania
May 19, 2004

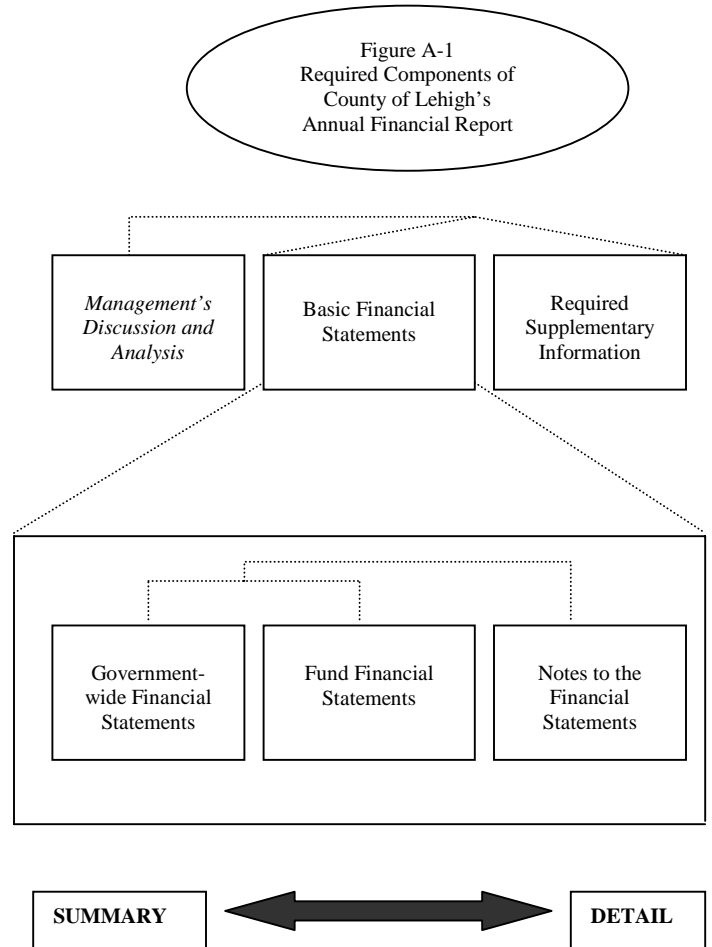
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003. 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 \$96.6 million at the close of the 2003 fiscal year. The following is a condensed summary of net assets for the years 2002 and 2003.

County of Lehigh's Net Assets

	Total Governmental Activities		Total Business - Type Activities		Total	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Current and other assets	\$ 82,714,912	\$ 122,141,768	\$ 716,551	\$ 683,479	\$ 83,431,463	\$ 122,825,247
Capital assets	<u>142,155,565</u>	<u>140,959,548</u>	<u>1,770,546</u>	<u>1,579,931</u>	<u>143,926,111</u>	<u>142,539,479</u>
Total Assets	224,870,477	263,101,316	2,487,097	2,263,410	227,357,574	265,364,726
Long-term debt outstanding	120,823,160	114,194,054			120,823,160	114,194,054
Other liabilities	<u>67,960,231</u>	<u>54,545,760</u>	<u>43,513</u>	<u>37,574</u>	<u>68,003,744</u>	<u>54,583,334</u>
Total liabilities	188,783,391	168,739,814	43,513	37,574	188,826,904	168,777,388
Net assets:						
Invested in capital assets, net of related debt	14,910,954	20,136,388	1,770,546	1,579,931	16,681,500	21,716,319
Restricted	18,245,796	41,851,105			18,245,796	41,851,105
Unrestricted	<u>2,930,336</u>	<u>32,374,009</u>	<u>673,038</u>	<u>645,905</u>	<u>3,603,374</u>	<u>33,019,914</u>
Total net assets	\$ 36,087,086	\$ 94,361,502	\$ 2,443,584	\$ 2,225,836	\$ 38,530,670	\$ 96,587,338

Current and other assets increased \$39.4 million and Unrestricted Net Assets increased \$29.4 million largely due to an increase in the following reserves that were funded by an increase in real estate tax millage from 7.31 mills in 2002 to 12.39 mills in 2003:

- Increase in the Stabilization Fund of \$11.1 million, which now totals \$18 million.
- Increase in the Green Futures Fund for open space acquisition of \$7.2 million.
- Increase in the Government Center Fund for future capital asset repairs and purchases of \$1.9 million.

Other Liabilities decreased \$13.4 million and Restricted Net Assets increased \$23.6 million largely due to the decrease in the liability for incurred but not reported claims payable in the Health Choices Fund, which was actuarially determined in 2003.

Changes in Net Assets:

The following is a summary of the key elements comprising the changes in net assets for the years 2002 and 2003.

County of Lehigh's Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Revenues:						
Program revenue:						
Charges for services	\$ 26,097,445	\$ 30,967,650	\$ 1,466,480	\$ 1,107,196	\$ 27,563,925	\$ 32,074,846
Operating grants and contributions	173,578,696	187,635,534			173,578,696	187,635,534
General revenues:						
Property taxes	57,445,976	99,184,542			57,445,976	99,184,542
Unrestricted investment earnings	<u>2,245,568</u>	<u>2,145,364</u>	<u>19,546</u>	<u>13,632</u>	<u>2,265,114</u>	<u>2,158,996</u>
Total revenues	259,367,685	319,933,090	1,486,026	1,120,828	260,853,711	321,053,918
Expenses:						
Elected officials	12,116,247	14,737,203			12,116,247	14,737,203
County executive	2,026,674	2,806,532			2,026,674	2,806,532
Administration	26,274,475	6,704,805			26,274,475	6,704,805
Planning	2,910,323	2,723,302			2,910,323	2,723,302
Human services	123,931,677	113,763,142	1,225,997	1,026,378	125,157,674	114,789,520
General services		10,804,844				10,804,844
Nursing homes	50,541,019	48,988,538			50,541,019	48,988,538
Corrections	21,993,193	25,027,077			21,993,193	25,027,077
Department of law	(104,516)	61,881			(104,516)	61,881
Courts	25,446,878	25,623,872			25,446,878	25,623,872
Development	4,087,233	2,638,262			4,087,233	2,638,262
Human resources		(312,665)				(312,665)
Interest on long-term debt	<u>6,555,879</u>	<u>6,410,229</u>			<u>6,555,879</u>	<u>6,410,229</u>
Total expenses	275,779,082	259,977,022	1,225,997	1,026,378	277,005,079	261,003,400
Increase in net assets before transfers and special items	(16,411,397)	59,956,068	260,029	94,450	(16,151,368)	60,050,518
Special items		(1,957,839)		(36,011)		(1,993,850)
Transfers	<u>591,340</u>	<u>276,187</u>	<u>(591,340)</u>	<u>(276,187)</u>		
Changes in net assets	(15,820,057)	58,274,416	(331,311)	(217,748)	(16,151,368)	58,056,668
Ending net assets	<u>\$ 36,087,086</u>	<u>\$ 94,361,502</u>	<u>\$ 2,443,584</u>	<u>\$ 2,225,836</u>	<u>\$ 38,530,670</u>	<u>\$ 96,587,338</u>

The County's total revenues increased \$60.2 million to \$321 million. About \$41.7 million, or 69%, of the increase is due to an increase in property tax revenue resulting from the millage increase noted earlier. Approximately 31% of total revenues received is from property tax revenue. Nearly 59% of the total revenues is received from the State and Federal government in the form of grants.

The County expenditures totaled \$261 million. The Human Services and Nursing Homes functions comprise 61% of the total expenditures. The Corrections and Courts functions comprise 18% of the total expenditures.

Two new departments were added in 2003 – General Services and Human Resources. General Services was previously included in the Administration function and Human Resources was previously included in the County Executive function. The overall decrease in the Administration / General Services function is the result of the County allocating to each function a portion of personnel fringe benefits expense that were previously reported in Administration. This change accounts for approximately \$7.8 million of the fluctuation.

During 2003, the County adjusted its capitalization threshold for capital assets from \$1,000 to \$5,000 that resulted in a net asset decrease of almost \$2 million. An adjustment of this type is required to be reported separately as a "special item". No such adjustment requiring separate disclosure occurred in 2002.

Financial Analysis of the Government's Funds

The County's governmental funds combined fund balances were \$83.5 million, which is a \$48.6 million increase from the prior year. The primary reasons for this increase in fund balances were:

- The General Fund increased \$25.6 million due to the increase in the Stabilization Fund and the Green Futures Fund that were discussed previously.
- The Health Choices Fund increased \$24.3 million due to increased grant revenue resulting from its first full year of full enrollment and a decrease in the liability for incurred but not reported claims payable, which was actuarially determined in 2003.

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 \$4.3 million or 3 percent. Some of the highlights are as follows:

Original vs. Final Budget:

- \$2.4 million increase in Administration budget due to the reallocation of unspent personnel costs resulting from the reduction of 122 positions from the County's workforce. This portion of the unspent personnel budget was recorded in Administration for control and tracking purposes.
- \$2.1 million increase in juvenile placement costs in Courts.

Variance with Final Budget:

- \$1 million favorable variance in property tax revenues.
- \$2.2 million favorable variance in departmental earnings due to waste hauler fee activity at the Pretreatment Plant (\$.7 million) , prison holding fee activity (\$.4 million), and Recorder of Deeds activity (\$.9 million).
- \$3.8 million favorable variance in administration expenditures due to reduction in workforce and improved operational procedures.
- \$4.6 million favorable variance in nursing home expenditures due to a reduction in workforce, reduction in number of beds maintained, and improved operational procedures.
- Overall favorable other financing sources / (uses) of \$9.6 million due to the County budgeting \$3.2 million of debt payments for an anticipated bond issuance in 2003 that did not occur and \$5.2 million budgeted Cedarbrook nursing home funding not required due to favorable expenditure variance discussed above.

Capital Assets

The following is a schedule of the County’s Capital Assets as of December 31, 2002 and December 31, 2003:

County of Lehigh’s Capital Assets

	<u>Total Governmental Activities</u>		<u>Total Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Land	\$ 10,151,312	\$ 10,092,437	\$ 236,533	\$ 236,533	\$ 10,387,845	\$ 10,328,970
Buildings and improvements	110,840,308	110,708,164	1,490,194	1,327,484	112,330,502	112,035,648
Machinery and equipment	8,772,606	6,983,117	39,383	15,914	8,811,989	6,999,031
Furniture and Fixtures	1,371,097	1,352,664	4,436		1,375,533	1,352,664
Easements	5,495,334	6,420,967			5,495,334	6,420,967
Infrastructure	5,196,213	5,209,138			5,196,213	5,209,138
Other Capital Assets	328,695	193,061			328,695	193,061
Total	<u>\$ 142,155,565</u>	<u>\$ 140,959,548</u>	<u>\$ 1,770,546</u>	<u>\$ 1,579,931</u>	<u>\$ 143,926,111</u>	<u>\$ 142,539,479</u>

Noteworthy capital asset purchases/projects that took place in 2003 were as follows:

- Purchased additional land easements for Agricultural Land Preservation
- Continuation of the Courthouse Renovation project
- Continuation of the Sports Fields project
- Installed Computer Aided Dispatch System
- Conversion of remaining Government Center space for the Human Services Department
- Conversion of the Cedarbrook Nursing Home A-wing into the Brookview independent living units

Additional information of the County’s Capital Assets can be found in Note 7 on page 33.

Debt Administration

At year-end the County had \$120.8 million in general obligation bonds outstanding – a decrease of 5.0 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>2002</u>	<u>2003</u>	<u>Change</u>
			<u>2002- 2003</u>
General obligation bonds payable	\$ 127,244,611	\$ 120,823,160	(5.0%)
Accreted interest obligation	2,703,774	1,950,735	(27.9%)
Total	<u>\$ 129,948,385</u>	<u>\$ 122,773,895</u>	(5.5%)

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 30.

Economic Factors and Next Year's Budgets and Rates

- Unemployment in the Allentown-Bethlehem-Easton metropolitan area now stands at 6.0 percent versus 5.8 percent a year ago. This is higher than the state's rate of 5.3 percent and the same as the national rate of 6.0 percent.
- Inflation in the Lehigh Valley (Lehigh and Northampton counties) is higher than the national consumer price index data due to increased medical care costs.
 - County inflation was 3.3 percent for year-end 2003.
 - The national rate was 1.9 percent.

These indicators were taken into account when adopting the general fund budget for 2004.

Property taxes decreased from 12.39 to 10.75 mills in 2004, or a decrease of 13.2%.

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, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 85,504,878	\$ 683,221	\$ 86,188,099
Investments	6,011,733		6,011,733
Receivables:			
Grants	19,611,590		19,611,590
Real estate taxes	3,607,119		3,607,119
Interest and dividends	16,846		16,846
Mortgage	1,306,651		1,306,651
Other	4,247,939	258	4,248,197
Due from agency funds	326,882		326,882
Other	1,508,130		1,508,130
Capital assets (net of accumulated depreciation)	<u>140,959,548</u>	<u>1,579,931</u>	<u>142,539,479</u>
Total assets	<u>263,101,316</u>	<u>2,263,410</u>	<u>265,364,726</u>
LIABILITIES			
Accounts payable	15,485,499	18,279	15,503,778
Deposits and agency amounts payable	4,507,097	15,075	4,522,172
Accrued payroll and payroll taxes	2,121,217	4,220	2,125,437
Accrued vacation and other compensation	8,115,314		8,115,314
Due to other governmental units	940,063		940,063
Deferred revenues:			
Grants	7,013,840		7,013,840
Other	2,933,869		2,933,869
Accrued worker's compensation	4,849,020		4,849,020
Long-term obligations payable:			
Due within one year	6,629,106		6,629,106
Due in more than one year	114,194,054		114,194,054
Accreted interest obligation	<u>1,950,735</u>		<u>1,950,735</u>
Total liabilities	<u>168,739,814</u>	<u>37,574</u>	<u>168,777,388</u>
NET ASSETS			
Invested in capital assets (net of related debt)	20,136,388	1,579,931	21,716,319
Restricted for:			
Program expenditures	28,478,919		28,478,919
Encumbrances	10,000,299		10,000,299
Bond financed improvements	3,371,887		3,371,887
Unrestricted	<u>32,374,009</u>	<u>645,905</u>	<u>33,019,914</u>
Total net assets	<u>\$ 94,361,502</u>	<u>\$ 2,225,836</u>	<u>\$ 96,587,338</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, 2003

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	\$ 11,967,447	\$ 2,769,756	\$ 5,177,011	\$ 1,011,396	\$ (8,548,796)		\$ (8,548,796)
County executive	2,068,288	738,244	7,364		(2,799,168)		(2,799,168)
Administration	15,327,448	(8,622,643)	3,685,014	419,164	(2,600,627)		(2,600,627)
Planning	2,486,692	236,610	407,787	638,542	(1,676,973)		(1,676,973)
Human services	111,932,700	1,830,442	718,912	131,794,720	18,750,490		18,750,490
General services	12,767,888	(2,385,461)	4,762,432	3,208,669	(2,411,326)		(2,411,326)
Nursing homes	46,320,955	2,667,583	9,465,622	40,818,823	1,295,907		1,295,907
Corrections	24,217,037	810,040	2,470,380	1,417,755	(21,138,942)		(21,138,942)
Department of law	914,534	(852,653)	185,726		123,845		123,845
Courts	22,183,861	3,440,011	3,380,554	7,098,002	(15,145,316)		(15,145,316)
Development	2,500,611	137,651	706,848	1,228,463	(702,951)		(702,951)
Human resources	905,498	(795,746)			(109,752)		(109,752)
Interest on long-term debt	6,410,229				(6,410,229)		(6,410,229)
Total governmental activities	\$ 260,003,188	\$ (26,166)	\$ 30,967,650	\$ 187,635,534	\$ (41,373,838)		\$ (41,373,838)
Business-type activities:							
Enterprise funds	\$ 1,000,212	\$ 26,166	\$ 1,107,196			\$ 80,818	\$ 80,818
Total primary government	\$ 261,003,400	\$ 0	\$ 32,074,846	\$ 187,635,534	\$ (41,373,838)	\$ 80,818	\$ (41,293,020)
			General revenues:				
			Taxes		99,184,542		99,184,542
			Unrestricted investment earnings		2,145,364	13,732	2,159,096
			Transfers		276,187	(276,187)	0
			Special items:				
			Capitalization threshold change		(1,957,839)	(36,111)	(1,993,950)
			Total general revenues and transfers		99,648,254	(298,566)	99,349,688
			Change in net assets		58,274,416	(217,748)	58,056,668
			Net assets, January 1		36,087,086	2,443,584	38,530,670
			Net assets, December 31		\$ 94,361,502	\$ 2,225,836	\$ 96,587,338

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

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2003

	General	Mental Health and Mental Retardation	Health Choices	Children and Youth	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 32,603,466	\$ 6,631,169	\$ 31,833,352	\$ 2,000	\$ 11,928,842	\$ 82,998,829
Investments	6,011,733					6,011,733
Receivables:						
Grants	7,700,078	196,457	7,875	7,420,368	4,286,812	19,611,590
Real estate taxes	3,607,119					3,607,119
Interest and dividends	16,846					16,846
Mortgage	1,306,651					1,306,651
Other	1,840,618	59,339	149	3,363	2,344,470	4,247,939
Due from other funds	2,916,661					2,916,661
Other	232,119	1,250,167			25,844	1,508,130
Total assets	<u>\$ 56,235,291</u>	<u>\$ 8,137,132</u>	<u>\$ 31,841,376</u>	<u>\$ 7,425,731</u>	<u>\$ 18,585,968</u>	<u>\$ 122,225,498</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	3,727,429	3,999,940	2,201,508	3,523,386	2,007,785	15,460,048
Deposits and agency amounts payable	1,007,072		3,500,000		25	4,507,097
Payroll and payroll taxes	1,827,218	67,971	3,083	108,433	105,504	2,112,209
Due to other governmental units	940,063					940,063
Due to other funds				1,637,303	952,476	2,589,779
Deferred revenues:						
Grants	2,107,630	4,069,221			836,989	7,013,840
Real estate taxes	3,141,307					3,141,307
Other	623,826				2,310,043	2,933,869
Total liabilities	<u>13,374,545</u>	<u>8,137,132</u>	<u>5,704,591</u>	<u>5,269,122</u>	<u>6,212,822</u>	<u>38,698,212</u>
Fund balances:						
Reserved for:						
Program expenditures			26,136,785	2,156,609	185,525	28,478,919
Encumbrances	2,564,945				7,435,354	10,000,299
Bond financed improvements					3,371,887	3,371,887
Unreserved	40,295,801				1,380,380	41,676,181
Total fund balances	<u>42,860,746</u>	<u>0</u>	<u>26,136,785</u>	<u>2,156,609</u>	<u>12,373,146</u>	<u>83,527,286</u>
Total liabilities and fund balances	<u>\$ 56,235,291</u>	<u>\$ 8,137,132</u>	<u>\$ 31,841,376</u>	<u>\$ 7,425,731</u>	<u>\$ 18,585,968</u>	<u>\$ 122,225,498</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, 2003

Total *fund balances* for governmental funds \$ 83,527,286

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	10,092,437
Buildings and improvements, net of \$66,233,661 accumulated depreciation	110,708,164
Machinery and equipment, net of \$28,145,170 accumulated depreciation	6,983,117
Furniture and fixtures, net of \$2,216,311 accumulated depreciation	1,352,664
Easements, net of \$906,158 accumulated depreciation	6,420,967
Infrastructure, net of \$985,682 accumulated depreciation	5,209,138
Other capital assets, net of \$1,071,107 accumulated depreciation	<u>193,061</u>

Total capital assets 140,959,548

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.

2,471,590

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.

3,141,307

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, 2003 are:

Accreted interest obligation	(1,950,735)
Bonds and notes payable	(120,823,160)
Accrued vacation and other compensation	(8,115,314)
Accrued worker's compensation	<u>(4,849,020)</u>

(135,738,229)

Total net assets of governmental activities \$ 94,361,502

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, 2003

	General	Mental Health and Mental Retardation	Health Choices	Children and Youth	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 98,276,362					\$ 98,276,362
Grants and reimbursements	51,966,685	\$ 36,750,031	\$ 45,688,011	\$ 22,128,601	\$ 31,102,206	187,635,534
Departmental earnings	22,649,352	61,072		41	276,352	22,986,817
Judicial costs and fines	2,769,846				45,454	2,815,300
Investment income	1,032,286	164,755	466,539	482	481,302	2,145,364
Rents	158,280				415	158,695
Other	4,582,961	379,416			44,461	5,006,838
Total revenues	<u>181,435,772</u>	<u>37,355,274</u>	<u>46,154,550</u>	<u>22,129,124</u>	<u>31,950,190</u>	<u>319,024,910</u>
EXPENDITURES						
Elected officials	11,893,410				114,792	12,008,202
County executive	2,032,176					2,032,176
Administration	13,587,637				1,328,197	14,915,834
Planning	1,943,452				1,095,122	3,038,574
Human services	443,832	37,939,990	21,788,937	24,776,361	27,642,794	112,591,914
General services	11,347,679				2,435,340	13,783,019
Nursing homes	45,552,711				3,381,595	48,934,306
Corrections	23,024,102				454,328	23,478,430
Department of law	915,487					915,487
Courts	18,701,466				3,272,257	21,973,723
Development	2,412,732					2,412,732
Human resources	888,171					888,171
Indirect cost allocation charges	(1,939,397)	484,882	19,068	552,226	857,055	(26,166)
Debt Service:						
Principal retirement					6,421,451	6,421,451
Interest					7,163,268	7,163,268
Total expenditures	<u>130,803,458</u>	<u>38,424,872</u>	<u>21,808,005</u>	<u>25,328,587</u>	<u>54,166,199</u>	<u>270,531,121</u>
Excess of revenues over (under) expenditures	<u>50,632,314</u>	<u>(1,069,598)</u>	<u>24,346,545</u>	<u>(3,199,463)</u>	<u>(22,216,009)</u>	<u>48,493,789</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,356,106	1,282,330		5,644,497	19,733,983	28,016,916
Operating transfers out	(26,437,098)	(212,732)	(51,142)	(288,425)	(937,294)	(27,926,691)
Total other financing sources / (uses)	<u>(25,080,992)</u>	<u>1,069,598</u>	<u>(51,142)</u>	<u>5,356,072</u>	<u>18,796,689</u>	<u>90,225</u>
Net change in fund balances	25,551,322	0	24,295,403	2,156,609	(3,419,320)	48,584,014
Fund balances, January 1	17,309,424	0	1,841,382	0	15,792,466	34,943,272
Fund balances, December 31	<u>\$ 42,860,746</u>	<u>\$ 0</u>	<u>\$ 26,136,785</u>	<u>\$ 2,156,609</u>	<u>\$ 12,373,146</u>	<u>\$ 83,527,286</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, 2003

Net change in *fund balances* – total governmental funds \$ 48,584,014

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 (\$7,992,872) exceeded depreciation (\$7,231,050) in the current period. 761,822

The capitalization threshold for capital assets was increased from \$1,000 to \$5,000. Therefore, capital assets (\$5,196,469) and their corresponding accumulated depreciation (\$3,238,630) were removed from the capital assets list. (1,957,839)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. 6,421,451

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	560,990	
Accrued vacation and other compensation	180,864	
Accrued interest on bonds	753,039	
Deferred real estate tax revenue	<u>908,180</u>	
		2,403,073

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 \$831,317 depreciation which is included in the capital outlays adjustment above) are included in the governmental activities. 2,061,895

Change in net assets of governmental activities \$ 58,274,416

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

COUNTY OF LEHIGH, PENNSYLVANIA

Statement of Net Assets

Proprietary Funds

December 31, 2003

	<u>Business-type Activities</u> Enterprise Funds	<u>Governmental Activities</u> Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 683,221	\$ 2,506,049
Receivables:		
Other	258	
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,386,247	20,671,614
Equipment	86,297	1,019,877
Furniture and fixtures	20,482	1,070,146
Less accumulated depreciation	<u>(4,149,628)</u>	<u>(4,984,377)</u>
Total capital assets (net of accumulated depreciation)	<u>1,579,931</u>	<u>17,777,260</u>
TOTAL ASSETS	<u>\$ 2,263,410</u>	<u>\$ 20,283,309</u>
LIABILITIES		
Current liabilities:		
Accounts payable	18,279	25,451
Deposits and agency amounts payable	15,075	
Accrued payroll and payroll taxes	4,220	9,008
Noncurrent liabilities:		
General obligation bonds payable	<u> </u>	<u>22,962,136</u>
TOTAL LIABILITIES	<u>\$ 37,574</u>	<u>\$ 22,996,595</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,579,931	<u>(5,184,876)</u>
Unrestricted	<u>645,905</u>	<u>2,471,590</u>
Total net assets	<u>\$ 2,225,836</u>	<u>\$ (2,713,286)</u>

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, 2003

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 725,971	
Prison commissary revenues	381,225	
Government Center revenues		\$ 2,999,217
Total operating revenues	<u>1,107,196</u>	<u>2,999,217</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	570,430	
Prison commissary	275,278	
Government Center		1,156,399
Depreciation	154,504	831,317
Indirect cost allocation charges	26,166	
Total operating expenses	<u>1,026,378</u>	<u>1,987,716</u>
OPERATING INCOME	<u>80,818</u>	<u>1,011,501</u>
NONOPERATING REVENUES (EXPENSES)	<u>(22,379)</u>	<u>33,115</u>
OTHER FINANCING USES		
Transfers in		1,900,000
Transfers out	<u>(276,187)</u>	<u>(1,714,038)</u>
	(276,187)	185,962
Change in net assets	(217,748)	1,230,578
Total net assets, January 1	<u>2,443,584</u>	<u>(3,943,864)</u>
Total net assets, December 31	<u>\$ 2,225,836</u>	<u>\$ (2,713,286)</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, 2003

	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,164,259	\$ 2,999,217
Payments to suppliers	(636,037)	(406,072)
Payments to employees	(159,088)	(605,335)
Payments of benefits on behalf of employees	(56,522)	(145,563)
Indirect cost allocation charges	(26,166)	
Net cash provided by operating activities	286,446	1,842,247
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds		1,900,000
Transfers to other funds	(276,187)	(1,714,038)
Net cash provided by (used for) noncapital financing activities	(276,187)	185,962
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	13,732	33,115
Net cash provided by investing activities	13,732	33,115
Net decrease in cash and cash equivalents	23,991	2,061,324
Cash and cash equivalents, January 1	659,230	444,725
Cash and cash equivalents, December 31	\$ 683,221	\$ 2,506,049
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 80,818	\$ 1,011,501
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation expense	154,504	831,317
Change in assets and liabilities:		
Decrease in other receivables	349	
Decrease in other assets	56,714	
Decrease in accounts payable	(5,931)	(2,483)
Decrease in deposits and agency amounts payable	(216)	
Increase in payroll and payroll taxes payable	2,584	1,912
Decrease in other deferred revenues	(2,376)	
Net cash provided by operating activities	\$ 286,446	\$ 1,842,247

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, 2003

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 5,128,449	\$ 11,488,381
Investments, at fair value:		
United States government and municipal obligations	35,269,313	
Corporate and foreign bonds	11,949,668	
Broad market index	35,744,852	
Collateralized mortgages	1,524,528	
Domestic and foreign stocks	183,111,831	
Total investments	<u>267,600,192</u>	
Receivables:		
Interest and dividends	463,635	
Due from broker	13,770	
Employee contributions	87,083	
Other		28,569
Total receivables	<u>564,488</u>	<u>28,569</u>
Total assets	<u>273,293,129</u>	<u>\$ 11,516,950</u>
LIABILITIES		
Accounts payable	156,577	
Deposits and agency amounts payable		7,594,054
Due to other governmental units		3,596,014
Due to other funds		326,882
Withdrawals payable	67,493	
Pension benefits payable	71,928	
Total liabilities	<u>295,998</u>	<u>\$ 11,516,950</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 272,997,131</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, 2003

	Employee Retirement Plan
ADDITIONS	
Contributions:	
Employee	\$ 4,780,706
Employer	1,221,325
Total contributions	6,002,031
Investment income:	
Interest and dividend income	4,902,352
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	255,871
Corporate and foreign bonds	427,061
Broad market index	1,102,760
Collateralized mortgages	(96,117)
Domestic and foreign stocks	38,556,396
	40,245,971
Less investment expenses	(862,296)
Net investment income	44,286,027
Total additions	50,288,058
DEDUCTIONS	
Employee contributions refunded	1,095,398
Retirement benefits paid	10,414,634
Death benefits paid	118,058
Administrative expense	37,691
Total deductions	11,665,781
Change in net assets	38,622,277
Net assets, January 1	234,374,854
Net assets, December 31	\$ 272,997,131

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, 2003

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 2003, 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 2003, Lehigh County provided \$338,100 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, and Children and Youth Fund.

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 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 Children and Youth Fund, which was previously reported in the General Fund, is used to account for the proceeds of specific revenue sources related to the provision of children and youth services that are restricted to expenditures for those specified purposes. Current year other financing sources / (uses) include the transfer of \$1,659,388 from the General Fund to the Children and Youth Fund to reflect this change.

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 2003 real estate taxes are as follows:

July 31, 2004	Notices of unpaid delinquent taxes must be mailed by the County.
September 2, 2005	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 12, 2005	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, 2006	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. 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.

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 \$102,804,929 and the bank balance of such accounts was \$110,495,388. 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, 2003 are as follows:

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>Uncategorized</u>
United States government and municipal bonds		\$ 41,281,046	\$ 41,281,046
Corporate and foreign bonds		11,949,668	11,949,668
Domestic and foreign common stocks		183,111,831	183,111,831
Collateralized mortgages		1,524,528	1,524,528
Broad market bond index		35,744,852	35,744,852
Interest bearing and noninterest bearing accounts			\$ 101,528,735
Certificates of deposit	\$ 1,276,194		1,276,194
	<u>\$ 1,276,194</u>	<u>\$ 273,611,925</u>	<u>\$ 101,528,735</u>
			<u>\$ 376,416,854</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, 2003:

	<u>Balance at January 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2003</u>
Accrued vacation and other compensation	\$ 8,296,178		\$ (180,864)	\$ 8,115,314
Accrued worker's compensation	5,410,010	787,182	\$ (1,348,172)	4,849,020
General obligation bonds payable	127,244,611		(6,421,451)	120,823,160
Accreted interest obligation on capital appreciation bonds	2,703,774	206,441	(959,480)	1,950,735
	<u>\$ 143,654,573</u>	<u>\$ 993,623</u>	<u>\$ (8,909,967)</u>	<u>\$ 135,738,229</u>

The following is a summary of general obligation bonds payable of the County for the year ended December 31, 2003:

General Long-Term Obligations

\$28,376,380 1989 Refunding Bonds – Capital appreciation bonds due in annual installments of \$1,700,000 from October 15, 2004 through October 15, 2005 with approximate yields to maturity varying from 6.75% to 6.80%	1,198,160
\$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 4.75% 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%	33,260,000
\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$850,000 to \$12,150,000 through November 15, 2016, interest rates vary from 3.00% to 5.00%	<u>86,365,000</u>
	<u>\$ 120,823,160</u>

The annual requirements to amortize all general obligation bonds payable as of December 31, 2003 are as follows:

	<u>General Obligation</u>		
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	9,070,000	4,519,069	13,589,069
2009 – 2013	52,575,000	15,365,269	67,940,269
2014 – 2016	28,770,000	2,646,500	31,416,500
	<u>\$ 120,823,160</u>	<u>\$ 46,462,595</u>	<u>\$ 167,285,755</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, 2003 are as follows:

General Obligation Bond Issue and Final Maturity	Interest Rate	Amount Outstanding at December 31, 2003
Series A of 1989	6.00%	\$ 11,870,000
Series of 1991	6.85% - 6.90%	\$ 19,375,000
Series of 1993	4.50% - 5.125%	\$24,905,000
Series of 1996	5.00% - 5.70%	\$38,180,000

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 SHORT TERM FINANCING

During the year, the County issued tax anticipation notes payable totaling \$17,500,000. All amounts have been repaid by December 31, 2003.

NOTE 6 INTERFUND BALANCES

Interfund receivable and payable balances of each individual fund as of December 31, 2003 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Children and Youth Fund	\$ 1,637,303
General Fund	Nonmajor Governmental Fund	\$ 952,476
General Fund	Agency Fund	326,882
		<u>\$ 2,916,661</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, 2003 are as follows:

Transfer In:

	<u>General Fund</u>	<u>Mental Health and Mental Retardation Fund</u>	<u>Children and Youth Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
Transfer out:						
General Fund		\$ 1,282,330	\$ 5,644,497	\$ 17,610,271	\$ 1,900,000	\$ 26,437,098
Mental Health and Mental Retardation Fund	\$ 29,741			182,991		212,732
Health Choices Fund	27,355			23,787		51,142
Children and Youth Fund	46,416			242,009		288,425
Nonmajor Governmental Fund	937,294					937,294
Enterprise Fund	274,424			1,763		276,187
Internal Service Fund	40,876			1,673,162		1,714,038
	<u>\$ 1,356,106</u>	<u>\$ 1,282,330</u>	<u>\$ 5,644,497</u>	<u>\$ 19,733,983</u>	<u>\$ 1,900,000</u>	<u>\$ 29,916,916</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 7 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003 was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Capitalization Threshold</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$10,151,312		(\$58,875)		\$10,092,437
Capital assets, being depreciated:					
Buildings and improvements	172,835,469	\$4,578,273		(\$471,917)	176,941,825
Machinery and equipment	37,424,665	1,728,910	(77,785)	(3,947,503)	35,128,287
Furniture and fixtures	3,612,441	483,521		(526,987)	3,568,975
Easements	6,232,003	1,095,122			7,327,125
Infrastructure	6,028,899	165,921			6,194,820
Other capital assets	1,514,230			(250,062)	1,264,168
Total capital assets, being depreciated	<u>227,647,707</u>	<u>8,051,747</u>	<u>(77,785)</u>	<u>(5,196,469)</u>	<u>230,425,200</u>
Total capital assets, historical cost	<u>237,799,019</u>	<u>8,051,747</u>	<u>(136,660)</u>	<u>(5,196,469)</u>	<u>240,517,637</u>
Less accumulated depreciation for:					
Buildings and improvements	(61,995,161)	(4,385,056)		146,556	(66,233,661)
Machinery and equipment	(28,652,059)	(2,188,212)	77,785	2,617,316	(28,145,170)
Furniture and fixtures	(2,241,344)	(257,675)		282,708	(2,216,311)
Easements	(736,669)	(169,489)			(906,158)
Infrastructure	(832,686)	(152,996)			(985,682)
Other capital assets	(1,185,535)	(77,622)		192,050	(1,071,107)
Total accumulated depreciation	<u>(95,643,454)</u>	<u>(7,231,050)</u>	<u>77,785</u>	<u>3,238,630</u>	<u>(99,558,089)</u>
Total capital assets, net of accumulated depreciation	<u>\$142,155,565</u>	<u>\$820,697</u>	<u>(\$58,875)</u>	<u>(\$1,957,839)</u>	<u>\$140,959,548</u>
Business-type activities:	<u>Ending Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Capitalization Threshold</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$236,533				236,533
Capital assets, being depreciated:					
Buildings and improvements	5,404,051			(\$17,804)	5,386,247
Machinery and equipment	142,132			(55,835)	86,297
Furniture and fixtures	28,043			(7,561)	20,482
Total capital assets, being depreciated	<u>5,574,226</u>			<u>(81,200)</u>	<u>5,493,026</u>
Total capital assets, historical cost	<u>5,810,759</u>			<u>(81,200)</u>	<u>5,729,559</u>
Less accumulated depreciation for:					
Buildings and improvements	(3,913,857)	(\$147,237)		2,331	(4,058,763)
Machinery and equipment	(102,749)	(6,811)		39,177	(70,383)
Furniture and fixtures	(23,607)	(456)		3,581	(20,482)
Total accumulated depreciation	<u>(4,040,213)</u>	<u>(154,504)</u>		<u>45,089</u>	<u>(4,149,628)</u>
Total capital assets, net of accumulated depreciation	<u>\$1,770,546</u>	<u>(\$154,504)</u>		<u>(\$36,111)</u>	<u>\$1,579,931</u>

During 2003, the County adjusted its capitalization threshold for capital assets from \$1,000 to \$5,000. This resulted in certain assets being removed from the capital assets. The effect of this change is shown in the "Capitalization Threshold" column. In addition, the net effect of reducing net asset value by \$1,957,839 is shown as a special item on the Statement of Activities.

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 109,950
Executive	13,469
Administration	3,343,798
Planning	539,457
Human services	48,713
General services	78,537
Nursing homes	1,299,841
Corrections	1,439,202
Department of law	2,431
Courts	267,912
Development	<u>87,740</u>
 Total depreciation expense-governmental activities	 <u>\$ 7,231,050</u>
 Total depreciation expense - business-type activities - enterprise funds	 <u>\$ 154,504</u>

**NOTE 8 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 Cooke & Beiler LP, C. S. McKee & Co. Inc., Delaware International Advisers LTD, Emerald Advisers Inc., Mellon Equity Associates LLP, Montag & Caldwell Incorporated, Morgan Stanley LP, and Northern Trust, 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 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, 2003. 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 annual pension costs were \$1,221,325 for the fiscal year ended December 31, 2003 and \$0 for each of the fiscal years ended December 31, 2002 and 2001. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2003, 2002, and 2001.

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, 2003, 739 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, 2003, expenditures of approximately \$3,820,171 were recognized for such postemployment benefits.

NOTE 9 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 \$250,000 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>January 1</u>	<u>Change In Incurred Claims</u>		<u>Payments</u>		<u>December 31</u>
		<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
2002	\$ 4,868,717	\$ 1,467,774	\$ 551,779	\$ (210,600)	\$ (1,267,660)	\$ 5,410,010
2003	\$ 5,410,010	\$ 1,252,665	\$ (465,483)	\$ (246,011)	\$ (1,102,161)	\$ 4,849,020

During 2003, 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 10 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 Balances - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes	\$ 97,264,320	\$ 97,296,647	\$ 98,264,382	\$ 967,735
Grants and reimbursements	51,367,873	52,604,966	51,809,283	(795,683)
Departmental earnings	20,950,600	20,107,802	22,325,169	2,217,367
Costs and fines	2,945,501	2,945,501	2,749,027	(196,474)
Investment income	1,041,141	1,046,141	1,348,914	302,773
Rents	146,700	146,700	151,665	4,965
Payments in lieu of taxes	173,200	173,200	158,357	(14,843)
Other revenues	410,070	3,815,070	4,449,294	634,224
Total revenues	<u>174,299,405</u>	<u>178,136,027</u>	<u>181,256,091</u>	<u>3,120,064</u>
EXPENDITURES				
Elected officials	12,839,732	12,693,470	11,842,870	850,600
County executive	2,299,672	2,152,951	2,046,184	106,767
Administration	15,555,549	17,842,712	13,971,078	3,871,634
Planning	2,588,448	2,966,166	2,048,876	917,290
Human services	560,343	505,882	436,051	69,831
General services	11,717,001	11,779,668	11,086,147	693,521
Nursing homes	50,458,306	49,880,984	45,261,696	4,619,288
Corrections	24,263,698	23,407,002	23,037,509	369,493
Department of law	952,504	947,438	914,617	32,821
Courts	17,484,341	19,847,932	18,972,478	875,454
Development	1,972,302	2,975,791	2,296,537	679,254
Human resources	1,059,265	1,022,043	872,886	149,157
Total expenditures	<u>141,751,161</u>	<u>146,022,039</u>	<u>132,786,929</u>	<u>13,235,110</u>
Excess of revenues over (under) expenditures	<u>32,548,244</u>	<u>32,113,988</u>	<u>48,469,162</u>	<u>16,355,174</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	15,235,592	15,469,447	1,227,601	(14,241,846)
Indirect cost allocation in	7,680,969	7,680,969	1,939,397	(5,741,572)
Operating transfers out	(41,283,841)	(47,118,240)	(23,264,708)	23,853,532
Indirect cost allocation out	(5,731,052)	(5,731,052)	0	5,731,052
Total other financing sources (uses)	<u>(24,098,332)</u>	<u>(29,698,876)</u>	<u>(20,097,710)</u>	<u>9,601,166</u>
Net change in fund balances	8,449,912	2,415,112	28,371,452	25,956,340
Fund balances, January 1	9,632,550	11,691,524	10,466,718	(1,224,806)
Fund balances, December 31	<u>\$ 18,082,462</u>	<u>\$ 14,106,636</u>	<u>\$ 38,838,170</u>	<u>\$ 24,731,534</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 General Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2003

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 25,551,322	\$ 42,860,746
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2002	14,508,579	
Accrued as receivables (net of deferred revenues) at December 31, 2003 but not recognized in budget	(7,291,898)	(7,291,898)
Change in appreciation of investments	318,773	(2,161,503)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2002	(10,146,149)	
Accrued as liabilities at December 31, 2003 but not recognized in budget	5,430,825	5,430,825
Budgetary Basis	\$ 28,371,452	\$ 38,838,170

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, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 38,968,249	\$ 38,968,249	\$ 35,947,686	\$ (3,020,563)
Departmental earnings	27,077	27,077	59,873	32,796
Costs and fines				
Investment income	175,000	175,000	164,755	(10,245)
Rents				
Payments in lieu of taxes				
Other revenues	2	2	396,401	396,399
Total revenues	<u>39,170,328</u>	<u>39,170,328</u>	<u>36,568,715</u>	<u>(2,601,613)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	39,994,713	39,791,930	38,960,611	831,319
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>39,994,713</u>	<u>39,791,930</u>	<u>38,960,611</u>	<u>831,319</u>
Excess of revenues over (under) expenditures	<u>(824,385)</u>	<u>(621,602)</u>	<u>(2,391,896)</u>	<u>(1,770,294)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,621,909	1,467,191	1,282,330	(184,861)
Indirect cost allocation in				
Operating transfers out	(244,820)	(219,900)	(212,732)	7,168
Indirect cost allocation out	(495,074)	(488,281)	(484,882)	3,399
Total other financing sources (uses)	<u>882,015</u>	<u>759,010</u>	<u>584,716</u>	<u>(174,294)</u>
Net change in fund balances	57,630	137,408	(1,807,180)	(1,944,588)
Fund balances, January 1	6,100,000	6,106,115	8,437,940	2,331,825
Fund balances, December 31	<u>\$ 6,157,630</u>	<u>\$ 6,243,523</u>	<u>\$ 6,630,760</u>	<u>\$ 387,237</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, 2003

	<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, 2002	201,264	
Received in cash during the year but deferred at December 31, 2003	4,069,221	4,069,221
Accrued as deferred revenue at December 31, 2002 but not recognized in budget	(4,801,848)	
Accrued as receivables at December 31, 2003 but not recognized in budget	(255,796)	(255,796)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2002	(4,620,420)	
Paid in cash during the year but deferred at December 31, 2003	(1,250,167)	(1,250,167)
Accrued as deferred expenditures at December 31, 2002 but not recognized in budget	783,064	
Accrued as liabilities at December 31, 2003 but not recognized in budget	4,067,502	4,067,502
Budgetary Basis	<u>\$ (1,807,180)</u>	<u>\$ 6,630,760</u>

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, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 46,531,197	\$ 46,531,197	\$ 45,711,402	\$ (819,795)
Departmental earnings				
Costs and fines				
Investment income	36,996	36,996	466,539	429,543
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>46,568,193</u>	<u>46,568,193</u>	<u>46,177,941</u>	<u>(390,252)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	45,520,512	45,750,712	19,676,415	26,074,297
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>45,520,512</u>	<u>45,750,712</u>	<u>19,676,415</u>	<u>26,074,297</u>
Excess of revenues over (under) expenditures	<u>1,047,681</u>	<u>817,481</u>	<u>26,501,526</u>	<u>25,684,045</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(105,550)	(103,045)	(51,142)	51,903
Indirect cost allocation out	(11,508)	(19,068)	(19,068)	0
Total other financing sources (uses)	<u>(117,058)</u>	<u>(122,113)</u>	<u>(70,210)</u>	<u>51,903</u>
Net change in fund balances	930,623	695,368	26,431,316	25,735,948
Fund balances, January 1	<u>750,000</u>	<u>753,298</u>	<u>1,902,036</u>	<u>1,148,738</u>
Fund balances, December 31	<u>\$ 1,680,623</u>	<u>\$ 1,448,666</u>	<u>\$ 28,333,352</u>	<u>\$ 26,884,686</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Health Choices Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2003

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 24,295,403	\$ 26,136,785
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2002	31,433	
Accrued as receivables (net of deferred revenues) at December 31, 2003 but not recognized in budget	(8,024)	(8,024)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2002	(92,087)	
Accrued as liabilities at December 31, 2003 but not recognized in budget	2,204,591	2,204,591
Budgetary Basis	\$ 26,431,316	\$ 28,333,352

COUNTY OF LEHIGH, PENNSYLVANIA
 Children and Youth Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (Cash Basis) and Actual
 For the Year Ended December 31, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Grants and reimbursements	\$ 22,220,898	\$ 22,220,898	\$ 21,403,072	\$ (817,826)
Departmental earnings	2,001	2,001	41	(1,960)
Costs and fines				
Investment income	2,001	2,001	482	(1,519)
Rents				
Payments in lieu of taxes				
Other revenues	1	1		(1)
Total revenues	<u>22,224,901</u>	<u>22,224,901</u>	<u>21,403,595</u>	<u>(821,306)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	25,337,064	25,336,465	24,591,391	745,074
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>25,337,064</u>	<u>25,336,465</u>	<u>24,591,391</u>	<u>745,074</u>
Excess of revenues over (under) expenditures	<u>(3,112,163)</u>	<u>(3,111,564)</u>	<u>(3,187,796)</u>	<u>(76,232)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,986,000	3,985,109	2,393,144	(1,591,965)
Indirect cost allocation in				
Operating transfers out	(264,910)	(289,812)	(288,425)	1,387
Indirect cost allocation out	(552,226)	(552,226)	(552,226)	0
Total other financing sources (uses)	<u>3,168,864</u>	<u>3,143,071</u>	<u>1,552,493</u>	<u>(1,590,578)</u>
Net change in fund balances	56,701	31,507	(1,635,303)	(1,666,810)
Fund balances, January 1	25	6,256	0	(6,256)
Fund balances, December 31	<u>\$ 56,726</u>	<u>\$ 37,763</u>	<u>\$ (1,635,303)</u>	<u>\$ (1,673,066)</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Children and Youth Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2003

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 2,156,609	\$ 2,156,609
Increase (Decrease):		
Due to revenues:		
Accrued as receivables (net of deferred revenues) at December 31, 2003 but not recognized in budget	(7,423,731)	(7,423,731)
Due to expenditures:		
Accrued as liabilities at December 31, 2003 but not recognized in budget	3,631,819	3,631,819
Budgetary Basis	\$ (1,635,303)	\$ (1,635,303)