

*County of Lehigh,
Pennsylvania*

December 31, 2004

*Financial Statements
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2004

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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, 2004, 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, 2004, 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 27, 2005, 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 27, 2005

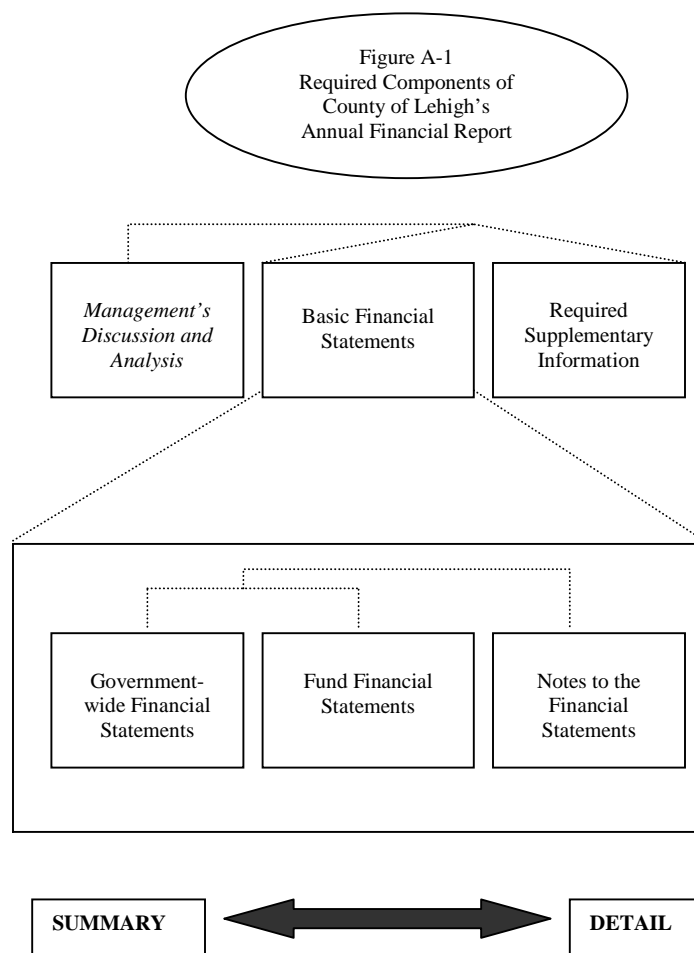
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. 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 \$118.5 million at the close of the 2004 fiscal year. The following is a condensed summary of net assets for the years 2003 and 2004.

County of Lehigh's Net Assets

	<u>Total Governmental Activities</u>		<u>Total Business - Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Current and other assets	\$ 122,141,768	\$ 146,099,640	\$ 683,479	\$ 665,161	\$ 122,825,247	\$ 146,764,801
Capital assets	140,959,548	147,056,334	1,579,931	1,444,862	142,539,479	148,501,196
Total Assets	<u>263,101,316</u>	<u>293,155,974</u>	<u>2,263,410</u>	<u>2,110,023</u>	<u>265,364,726</u>	<u>295,265,997</u>
Long-term debt outstanding	114,194,054	120,625,000			114,194,054	120,625,000
Other liabilities	54,545,760	56,109,657	37,574	38,504	54,583,334	56,148,161
Total liabilities	<u>168,739,814</u>	<u>176,734,657</u>	<u>37,574</u>	<u>38,504</u>	<u>168,777,388</u>	<u>176,773,161</u>
Net assets:						
Invested in capital assets, net of related debt	20,136,388	18,162,643	1,579,931	1,444,862	21,716,319	19,607,505
Restricted	41,851,105	51,022,247			41,851,105	51,022,247
Unrestricted	32,374,009	47,236,427	645,905	626,657	33,019,914	47,863,084
Total net assets	<u>\$ 94,361,502</u>	<u>\$ 116,421,317</u>	<u>\$ 2,225,836</u>	<u>\$ 2,071,519</u>	<u>\$ 96,587,338</u>	<u>\$ 118,492,836</u>

Current and other assets, as well as total restricted and unrestricted net assets, increased approximately \$24 million largely due to a net increase in cash and investments of \$22.5 million.

Overall cash and investments increased due to increases in the following individual funds (the corresponding net asset category that is affected is in parentheses):

- Increase in the Stabilization Fund of \$6.9 million, which now totals \$20.2 million (Unrestricted).
- Increase in the Green Futures Fund for open space acquisition of \$6 million, which now totals \$8 million (Unrestricted).
- Increase in Health Choices Fund of \$4 million (Restricted).
- Increase in Other Capital Projects Fund of \$3.1 million for future capital projects (Restricted).
- Decrease in Bond Fund 2001 of \$8.4 million resulting from capital asset purchases, such as \$4.6 million for the construction of a new juvenile detention center. See page 9 for additional highlighted capital asset projects. (Restricted)
- Issuance of general obligation bonds in 2004 with a net effect on net assets at the end of 2004 of \$11.8 million. (Restricted)

Long-term debt outstanding increased \$6.4 million as a result of the issuance of \$47.4 million in general obligation bonds in 2004, less \$33.3 million of general obligation bonds, series 1993, that were currently refunded, less current year principal payments of \$7.2 million. More detailed information about the County's long-term debt is presented in Note 3 on Page 30.

Changes in Net Assets:

The following is a summary of the key elements comprising the changes in net assets for the years 2003 and 2004.

County of Lehigh's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Revenues:						
Program revenue:						
Charges for services	\$ 30,967,650	\$ 28,080,944	\$ 1,107,196	\$ 739,497	\$ 32,074,846	\$ 28,820,441
Operating grants and contributions	187,635,534	202,650,495			187,635,534	202,650,495
General revenues:						
Property taxes	99,184,542	88,624,332			99,184,542	88,624,332
Unrestricted investment earnings	<u>2,145,364</u>	<u>2,878,254</u>	<u>13,632</u>	<u>12,369</u>	<u>2,158,996</u>	<u>2,890,623</u>
Total revenues	319,933,090	322,234,025	1,120,828	751,866	321,053,918	322,985,891
Expenses:						
Elected officials	14,737,203	14,841,335			14,737,203	14,841,335
County executive	2,806,532	2,819,940			2,806,532	2,819,940
Administration	6,704,805	12,494,223			6,704,805	12,494,223
Planning	2,723,302	2,941,912			2,723,302	2,941,912
Human services	113,763,142	138,938,519	1,026,378	738,812	114,789,520	139,677,331
General services	10,382,427	10,361,222			10,804,844	10,361,222
Nursing homes	48,988,538	50,359,009			48,988,538	50,359,009
Corrections	25,027,077	26,113,877			25,027,077	26,113,877
Department of law	61,881	97,855			61,881	97,855
Courts	25,623,872	27,887,526			25,623,872	27,887,526
Development	2,638,262	6,819,640			2,638,262	6,819,640
Human resources	109,752	159,275			109,752	159,275
Interest on long-term debt	<u>6,410,229</u>	<u>6,507,248</u>			<u>6,410,229</u>	<u>6,507,248</u>
Total expenses	259,977,022	300,341,581	1,026,378	738,812	261,003,400	301,080,393
Increase in net assets before transfers and special items	59,956,068	21,892,444	94,450	13,054	60,050,518	21,905,498
Special items	(1,957,839)		(36,011)		(1,993,850)	
Transfers	<u>276,187</u>	<u>167,371</u>	<u>(276,187)</u>	<u>(167,371)</u>		
Changes in net assets	58,274,416	22,059,815	(217,748)	(154,317)	58,056,668	21,905,498
Ending net assets	<u>\$ 94,361,502</u>	<u>\$116,421,317</u>	<u>\$ 2,225,836</u>	<u>\$ 2,071,519</u>	<u>\$ 96,587,338</u>	<u>\$118,492,836</u>

The County's total revenues remained relatively stable with an increase of \$1.9 million to \$323 million. However, this is the net effect of an increase in operating grants and contributions of \$15 million and a decrease in property tax revenue of \$10.6 million. Property tax revenue decreased due to a reduction in real estate tax millage from 12.39 mills in 2003 to 10.75 mills in 2004. Approximately 27% of total revenues are from property tax revenue. Nearly 63% of the total revenues is received from the State and Federal government in the form of grants.

The County's expenditures totaled \$301 million. The Human Services and Nursing Homes functions comprise 63% of the total expenditures. The Corrections and Courts functions comprise 18% of the total expenditures.

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 2004.

Financial Analysis of the Government's Funds

The County's governmental funds combined fund balances were \$106.3 million, which is a \$22.8 million increase from the prior year. The primary reasons for this increase in fund balances were:

- The General Fund increased \$10.8 million largely due to the increase in the Stabilization Fund and the Green Futures Fund that were discussed previously.
- The Health Choices Fund increased \$4.2 million due to a change in state capitation rates.
- The Other Governmental Funds increased \$7.1 million largely due to an increase in Other Capital Projects Fund of \$3.1 million, a decrease in Bond Fund 2001 of \$8.4 million, and the addition of Bond Fund 2004 of \$11.8 million as previously discussed.

General Fund Budgetary Highlights

Original vs. Final Budget

Differences between the original adopted budget and the final amended budget of expenditures in the General Fund resulted in a net increase of \$5.7 million, or 3.9 percent. This increase is largely due to an increase in the Development expenditure budget from \$1.8 million to \$8 million which is the result of revisions of \$4.4 million for the state funded Redevelopment Assistance Capital Program (RACP) and \$1.4 million of total other community development block grant projects. These projects were not originally budgeted and are funded by state grant revenues.

Final Budget vs. Actual

- \$1.2 million favorable variance in property tax revenues.
- \$1.1 million favorable variance in departmental earnings due to favorable waste hauler fee activity at the Pretreatment Plant, prison holding fee activity, and Recorder of Deeds activity.
- \$1.3 million favorable variance in Administration expenditures due to favorable budgetary variations in workforce and improved operational procedures.
- \$2.6 million favorable variance in Nursing Home expenditures due to favorable budgetary variations in workforce and improved operational procedures.
- \$1 million favorable variance in Development expenditures due to various budgeted community development block grant projects that have not been completed
- Overall favorable other financing sources / (uses) of \$2.9 million largely due to anticipated capital asset activity that did not occur. Funding of these projects is achieved through transfers from individual funds to the Other Capital Projects Fund. For instance, the Green Futures Fund did not transfer \$2 million that was budgeted for open space land purchases and park improvements that did not occur.

Capital Assets

The following is a schedule of the County’s capital assets as of December 31, 2003 and December 31, 2004:

County of Lehigh’s Capital Assets

	<u>Total Governmental Activities</u>		<u>Total Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Land	\$ 10,092,437	\$ 9,986,187	\$ 236,533	\$ 236,533	\$ 10,328,970	\$ 10,222,720
Buildings and improvements	110,708,164	116,799,959	1,327,484	1,199,226	112,035,648	117,999,185
Machinery and equipment	6,983,117	6,621,771	15,914	9,103	6,999,031	6,630,874
Furniture and Fixtures	1,352,664	1,281,490			1,352,664	1,281,490
Easements	6,420,967	7,124,981			6,420,967	7,124,981
Infrastructure	5,209,138	5,114,848			5,209,138	5,114,848
Other Capital Assets	193,061	127,098			193,061	127,098
Total	\$ 140,959,548	\$ 147,056,334	\$ 1,579,931	\$ 1,444,862	\$ 142,539,479	\$ 148,501,196

Noteworthy capital asset purchases/projects that took place in 2004 were as follows:

- Purchased additional land easements for agricultural land preservation
- Continuation of the courthouse renovation project
- Continuation of the conversion of the Cedarbrook Nursing Home A-wing into the Brookview independent living units
- Construction of a new juvenile detention center
- Courts department software conversion project

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 \$128 million in general obligation bonds outstanding – an increase of 5.9 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>2003</u>	<u>2004</u>	<u>Change</u>
			<u>2003- 2004</u>
General obligation bonds payable	\$ 120,823,160	\$ 127,974,054	5.9%
Accreted interest obligation	1,950,735	1,049,534	(46.2%)
Total	\$ 122,773,895	\$ 129,943,225	5.8%

The County maintains an Aa3 rating from Moody's Investor Services and AA- from Standard & Poor'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 \$524 million as stated within the official statement of the County's most recent bond issuance, which is significantly in excess of the County's outstanding general obligation debt.

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 5.6 percent versus 6.0 percent a year ago. This is higher than the state's rate of 4.9 percent and the national rate of 5.2 percent.
- Inflation in the Lehigh Valley (Lehigh and Northampton counties) is higher than the national consumer price index data due to increased food, shelter, apparel, transportation, and medical costs.
 - County inflation was 4.9 percent for year-end 2004.
 - The national rate was 3.3 percent.

These indicators were taken into account when adopting the general fund budget for 2005.

Property tax millage for 2005 is the same as 2004 – 10.75 mills.

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, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 109,018,788	\$ 664,796	\$ 109,683,584
Investments	4,525,195		4,525,195
Receivables:			
Grants	22,962,756		22,962,756
Real estate taxes	3,320,582		3,320,582
Interest and dividends	13,996		13,996
Mortgage	1,278,926		1,278,926
Other	3,785,707	365	3,786,072
Due from agency funds	430,550		430,550
Unamortized bond issuance costs	377,120		377,120
Other	386,020		386,020
Capital assets (net of accumulated depreciation)	147,056,334	1,444,862	148,501,196
Total assets	<u>293,155,974</u>	<u>2,110,023</u>	<u>295,265,997</u>
LIABILITIES			
Accounts payable	17,567,358	21,017	17,588,375
Deposits and agency amounts payable	5,609,157	15,000	5,624,157
Accrued payroll and payroll taxes	2,903,044	2,487	2,905,531
Accrued vacation and other compensation	9,366,363		9,366,363
Due to other governmental units	243,535		243,535
Due to agency funds	315		315
Deferred revenues:			
Grants	4,715,749		4,715,749
Other	2,441,990		2,441,990
Accrued worker's compensation	3,943,921		3,943,921
Long-term obligations payable:			
Due within one year	7,349,054		7,349,054
Due in more than one year	120,625,000		120,625,000
Unamortized bond premium	919,637		919,637
Accreted interest obligation	1,049,534		1,049,534
Total liabilities	<u>176,734,657</u>	<u>38,504</u>	<u>176,773,161</u>
NET ASSETS			
Invested in capital assets (net of related debt)	18,162,643	1,444,862	19,607,505
Restricted for:			
Program expenditures	33,491,378		33,491,378
Bond financed improvements	17,530,869		17,530,869
Unrestricted	47,236,427	626,657	47,863,084
Total net assets	<u>\$ 116,421,317</u>	<u>\$ 2,071,519</u>	<u>\$ 118,492,836</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, 2004

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	\$ 13,559,610	\$ 1,281,725	\$ 5,041,623	\$ 1,297,498	\$ (8,502,214)		\$ (8,502,214)
County executive	2,347,487	472,453	1,430	15,000	(2,803,510)		(2,803,510)
Administration	18,479,219	(5,984,996)	3,996,890	610,935	(7,886,398)		(7,886,398)
Planning	2,813,896	128,016	776,817	555,273	(1,609,822)		(1,609,822)
Human services	137,392,356	1,546,163	655,271	136,432,346	(1,850,902)		(1,850,902)
General services	12,491,539	(2,130,317)	4,971,544	2,999,691	(2,389,987)		(2,389,987)
Nursing homes	47,156,804	3,202,205	5,332,232	45,291,903	265,126		265,126
Corrections	25,893,091	220,786	3,005,398	1,508,204	(21,600,275)		(21,600,275)
Department of law	939,960	(842,105)	200,698		102,843		102,843
Courts	25,176,086	2,711,440	3,524,501	8,451,186	(15,911,839)		(15,911,839)
Development	6,729,259	90,381	574,540	5,488,459	(756,641)		(756,641)
Human resources	895,907	(736,632)			(159,275)		(159,275)
Interest on long-term debt	6,507,248				(6,507,248)		(6,507,248)
Total governmental activities	\$ 300,382,462	\$ (40,881)	\$ 28,080,944	\$ 202,650,495	\$ (69,610,142)		\$ (69,610,142)
Business-type activities:							
Enterprise funds	\$ 697,931	\$ 40,881	\$ 739,497			\$ 685	\$ 685
Total primary government	\$ 301,080,393	\$ 0	\$ 28,820,441	\$ 202,650,495	\$ (69,610,142)	\$ 685	\$ (69,609,457)
			General revenues:				
			Taxes		88,624,332		88,624,332
			Unrestricted investment earnings		2,878,254	12,369	2,890,623
			Transfers		167,371	(167,371)	0
			Total general revenues and transfers		91,669,957	(155,002)	91,514,955
			Change in net assets		22,059,815	(154,317)	21,905,498
			Net assets, January 1		94,361,502	2,225,836	96,587,338
			Net assets, December 31		\$ 116,421,317	\$ 2,071,519	\$ 118,492,836

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

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2004

	General	Health Choices	Children and Youth	Mental Retardation	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 41,624,298	\$ 36,882,920	\$ 2,000	\$ 2,963,085	\$ 24,337,453	\$ 105,809,756
Investments	4,525,195					4,525,195
Receivables:						
Grants	9,545,049	1,313,583	8,478,485	378,658	3,246,981	22,962,756
Real estate taxes	3,320,582					3,320,582
Interest and dividends	13,996					13,996
Mortgage	1,278,926					1,278,926
Other	1,766,565	139	2,050	8,808	2,008,145	3,785,707
Due from other funds	3,644,321				330	3,644,651
Other	191,215	19,530		149,792	25,483	386,020
Total assets	<u>\$ 65,910,147</u>	<u>\$ 38,216,172</u>	<u>\$ 8,482,535</u>	<u>\$ 3,500,343</u>	<u>\$ 29,618,392</u>	<u>\$ 145,727,589</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	2,705,652	3,343,581	2,289,565	2,891,398	6,307,981	17,538,177
Deposits and agency amounts payable	1,107,607	4,500,000			1,550	5,609,157
Payroll and payroll taxes	2,448,954	9,696	161,970	53,483	214,221	2,888,324
Due to other governmental units	243,535					243,535
Due to other funds	315	6,120	3,133,372		74,609	3,214,416
Deferred revenues:						
Grants	2,488,716			555,462	1,671,571	4,715,749
Real estate taxes	2,743,965					2,743,965
Other	521,954				1,920,036	2,441,990
Total liabilities	<u>12,260,698</u>	<u>7,859,397</u>	<u>5,584,907</u>	<u>3,500,343</u>	<u>10,189,968</u>	<u>39,395,313</u>
Fund balances:						
Reserved for:						
Program expenditures		30,356,775	2,897,628		236,975	33,491,378
Bond financed improvements					17,530,869	17,530,869
Unreserved	53,649,449				1,660,580	55,310,029
Total fund balances	<u>53,649,449</u>	<u>30,356,775</u>	<u>2,897,628</u>	<u>0</u>	<u>19,428,424</u>	<u>106,332,276</u>
Total liabilities and fund balances	<u>\$ 65,910,147</u>	<u>\$ 38,216,172</u>	<u>\$ 8,482,535</u>	<u>\$ 3,500,343</u>	<u>\$ 29,618,392</u>	<u>\$ 145,727,589</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, 2004

Total *fund balances* for governmental funds \$ 106,332,276

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	9,986,187	
Buildings and improvements, net of \$70,661,794 accumulated depreciation	116,799,959	
Machinery and equipment, net of \$29,752,251 accumulated depreciation	6,621,771	
Furniture and fixtures, net of \$2,479,027 accumulated depreciation	1,281,490	
Easements, net of \$1,100,566 accumulated depreciation	7,124,981	
Infrastructure, net of \$1,141,677 accumulated depreciation	5,114,848	
Other capital assets, net of \$1,137,070 accumulated depreciation	<u>127,098</u>	

Total capital assets 147,056,334

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.

3,165,131

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

377,120

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.

2,743,965

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, 2004 are:

Accrued vacation and other compensation	(9,366,363)	
Accrued worker's compensation	(3,943,921)	
Bonds and notes payable	(127,974,054)	
Unamortized bond premium	(919,637)	
Accreted interest obligation	<u>(1,049,534)</u>	<u>(143,253,509)</u>

Total net assets of governmental activities \$ 116,421,317

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, 2004

	General	Health Choices	Children and Youth	Mental Retardation	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 89,021,674					\$ 89,021,674
Grants and reimbursements	61,976,726	\$ 40,903,957	\$ 23,413,423	\$ 31,698,542	\$ 44,657,847	202,650,495
Departmental earnings	23,393,339		156	34,207	252,127	23,679,829
Judicial costs and fines	2,993,029				58,513	3,051,542
Investment income	1,445,304	683,444	1,238	122,660	525,306	2,777,952
Rents	183,027				125	183,152
Other	674,533		490		420,657	1,095,680
Total revenues	<u>179,687,632</u>	<u>41,587,401</u>	<u>23,415,307</u>	<u>31,855,409</u>	<u>45,914,575</u>	<u>322,460,324</u>
EXPENDITURES						
Elected officials	13,214,219				268,751	13,482,970
County executive	2,275,262					2,275,262
Administration	15,464,353				3,258,644	18,722,997
Planning	2,250,056				954,960	3,205,016
Human services	426,094	37,110,860	25,805,441	32,312,692	42,377,006	138,032,093
General services	11,660,107				1,473,042	13,133,149
Nursing homes	45,761,552				3,194,648	48,956,200
Corrections	23,966,244				6,266,409	30,232,653
Department of law	937,298					937,298
Courts	20,870,198				4,492,062	25,362,260
Development	6,635,405					6,635,405
Human resources	919,578					919,578
Indirect cost allocation charges	(1,977,760)	44,581	553,045	192,831	1,146,422	(40,881)
Debt Service:						
Principal retirement					7,014,106	7,014,106
Interest					6,572,140	6,572,140
Total expenditures	<u>142,402,606</u>	<u>37,155,441</u>	<u>26,358,486</u>	<u>32,505,523</u>	<u>77,018,190</u>	<u>315,440,246</u>
Excess of revenues over (under) expenditures	<u>37,285,026</u>	<u>4,431,960</u>	<u>(2,943,179)</u>	<u>(650,114)</u>	<u>(31,103,615)</u>	<u>7,020,078</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	1,426,317		3,946,072	714,108	24,947,325	31,033,822
Operating transfers out	(27,922,640)	(211,970)	(261,874)	(63,994)	(1,207,803)	(29,668,281)
Proceeds of general obligation bonds - face					47,425,000	47,425,000
Proceeds of general obligation bonds - premium					990,378	990,378
Payment to refunded bond escrow agent					(33,996,007)	(33,996,007)
Total other financing sources / (uses)	<u>(26,496,323)</u>	<u>(211,970)</u>	<u>3,684,198</u>	<u>650,114</u>	<u>38,158,893</u>	<u>15,784,912</u>
Net change in fund balances	10,788,703	4,219,990	741,019	0	7,055,278	22,804,990
Fund balances, January 1	42,860,746	26,136,785	2,156,609	0	12,373,146	83,527,286
Fund balances, December 31	<u>\$ 53,649,449</u>	<u>\$ 30,356,775</u>	<u>\$ 2,897,628</u>	<u>\$ 0</u>	<u>\$ 19,428,424</u>	<u>\$ 106,332,276</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, 2004

Net change in *fund balances* – total governmental funds \$ 22,804,990

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded net depreciation in the current period. 6,096,786

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (7,693,411)

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	905,099	
Accrued vacation and other compensation	(1,251,049)	
Accrued interest on bonds	901,201	
Deferred real estate tax revenue	<u>(397,342)</u>	
		157,909

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) is included in the governmental activities. 693,541

Change in net assets of governmental activities \$ 22,059,815

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, 2004

	Business-type Activities <u>Enterprise Funds</u>	Governmental Activities <u>Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 664,796	\$ 3,209,032
Receivables:		
Other	365	
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,405,466	20,671,614
Equipment	86,297	1,019,877
Furniture and fixtures	20,482	1,070,146
Less accumulated depreciation	<u>(4,303,916)</u>	<u>(5,815,694)</u>
Total capital assets (net of accumulated depreciation)	<u>1,444,862</u>	<u>16,945,943</u>
TOTAL ASSETS	<u>\$ 2,110,023</u>	<u>\$ 20,154,975</u>
LIABILITIES		
Current liabilities:		
Accounts payable	21,017	29,181
Deposits and agency amounts payable	15,000	
Accrued payroll and payroll taxes	2,487	14,720
Noncurrent liabilities:		
General obligation bonds payable		<u>22,962,136</u>
TOTAL LIABILITIES	<u>\$ 38,504</u>	<u>\$ 23,006,037</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,444,862	<u>(6,016,193)</u>
Unrestricted	626,657	3,165,131
Total net assets	<u>\$ 2,071,519</u>	<u>\$ (2,851,062)</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, 2004

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 739,497	
Government Center revenues		\$ 2,985,715
Total operating revenues	<u>739,497</u>	<u>2,985,715</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	543,643	
Government Center		1,151,748
Depreciation	154,288	831,317
Indirect cost allocation charges	40,881	
Total operating expenses	<u>738,812</u>	<u>1,983,065</u>
OPERATING INCOME	<u>685</u>	<u>1,002,650</u>
NONOPERATING REVENUES (EXPENSES)	<u>12,369</u>	<u>57,744</u>
OTHER FINANCING USES		
Transfers out	<u>(167,371)</u>	<u>(1,198,170)</u>
	(167,371)	(1,198,170)
Change in net assets	(154,317)	(137,776)
Total net assets, January 1	<u>2,225,836</u>	<u>(2,713,286)</u>
Total net assets, December 31	<u>\$ 2,071,519</u>	<u>\$ (2,851,062)</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, 2004

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 739,390	\$ 2,985,715
Payments to suppliers	(361,005)	(407,756)
Payments to employees	(122,284)	(558,506)
Payments of benefits on behalf of employees	(59,424)	(176,044)
Indirect cost allocation charges	(40,881)	
Net cash provided by operating activities	155,796	1,843,409
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(167,371)	(1,198,170)
Net cash used for noncapital financing activities	(167,371)	(1,198,170)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(19,219)	
Net cash used for capital and related financing activities	(19,219)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	12,369	57,744
Net cash provided by investing activities	12,369	57,744
Net decrease in cash and cash equivalents	(18,425)	702,983
Cash and cash equivalents, January 1	683,221	2,506,049
Cash and cash equivalents, December 31	\$ 664,796	\$ 3,209,032
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 685	\$ 1,002,650
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation expense	154,288	831,317
Change in assets and liabilities:		
Increase in other receivables	(107)	
Increase in accounts payable	2,738	3,730
Decrease in deposits and agency amounts payable	(75)	
Increase / (decrease) in payroll and payroll taxes payable	(1,733)	5,712
Net cash provided by operating activities	\$ 155,796	\$ 1,843,409

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, 2004

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 5,767,934	\$ 12,376,367
Investments, at fair value:		
United States government and municipal obligations	44,854,181	10,089
Corporate and foreign bonds	14,767,905	89,358
Broad market index	36,678,332	
Collateralized mortgages	1,098,261	
Domestic and foreign stocks	192,436,383	324,483
Total investments	<u>289,835,062</u>	<u>423,930</u>
Receivables:		
Interest and dividends	564,983	
Employee contributions	125,717	
Due from other funds		315
Other		30,475
Total receivables	<u>690,700</u>	<u>30,790</u>
Total assets	<u>296,293,696</u>	<u>\$ 12,831,087</u>
LIABILITIES		
Accounts payable	149,292	
Deposits and agency amounts payable		8,634,693
Due to other governmental units		3,765,844
Due to other funds		430,550
Withdrawals payable	66,453	
Pension benefits payable	240,934	
Due to broker	297,042	
Total liabilities	<u>753,721</u>	<u>\$ 12,831,087</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 295,539,975</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, 2004

	<u>Employee Retirement Plan</u>
ADDITIONS	
Contributions:	
Employee	\$ 4,866,802
Employer	3,926,297
Total contributions	<u>8,793,099</u>
Investment income:	
Interest and dividend income	4,527,753
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	174,133
Corporate and foreign bonds	(34,995)
Broad market index	1,933,480
Collateralized mortgages	(31,082)
Domestic and foreign stocks	20,583,440
	<u>22,624,976</u>
Less investment expenses	(940,186)
Net investment income	<u>26,212,543</u>
Total additions	35,005,642
DEDUCTIONS	
Employee contributions refunded	833,512
Retirement benefits paid	11,218,096
Death benefits paid	374,312
Administrative expense	36,878
Total deductions	<u>12,462,798</u>
Change in net assets	22,542,844
Net assets, January 1	<u>272,997,131</u>
Net assets, December 31	<u><u>\$ 295,539,975</u></u>

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

COUNTY OF LEHIGH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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 2004, the 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 2004, the 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, Health Choices Fund, Children and Youth Fund, and Mental Retardation 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 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 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.

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

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 was used to account for income generated from prison commissary sales to be used within the correctional facilities. This fund has been eliminated as the activities of this fund have been outsourced.

Internal Service Fund

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

Fiduciary Funds

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

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

Cash and Cash Equivalents

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

Investments

The County accounts for its investments at fair value.

Real Estate Taxes

Substantially all real estate taxes are levied annually on April 1 with the face amount due by July 31. Unpaid taxes become delinquent on December 31 in the year of levy. Current year and delinquent tax payments are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenue as of December 31.

The dates relevant to the collection of delinquent 2004 real estate taxes are as follows:

July 31, 2005	Notices of unpaid delinquent taxes must be mailed by the County.
September 1, 2006	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 11, 2006	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, 2007	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.

Long-term Obligations

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

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

Interfund Transactions

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

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 \$127,827,885 and the bank balance of such accounts was \$134,263,672. 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, 2004 are as follows:

	Category			
	<u>1</u>	<u>2</u>	<u>Uncategorized</u>	<u>Total</u>
United States government and municipal bonds		\$ 49,389,465		\$ 49,389,465
Corporate and foreign bonds		14,857,263		14,857,263
Domestic and foreign common stocks		192,760,866		192,760,866
Collateralized mortgages		1,098,261		1,098,261
Broad market bond index		36,678,332		36,678,332
Interest-bearing and Noninterest bearing accounts			\$ 127,061,187	127,061,187
Certificates of deposit	\$ 766,698			766,698
	<u>\$ 766,698</u>	<u>\$ 294,784,187</u>	<u>\$ 127,061,187</u>	<u>\$ 422,612,072</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, 2004:

	Balance at January 1, 2004	Additions	Retirements	Balance at December 31, 2004
Accrued vacation and other compensation	\$ 8,115,314	1,251,049	\$	\$ 9,366,363
Accrued worker's compensation	4,849,020	796,332	\$ (1,701,431)	3,943,921
General obligation bonds payable	120,823,160	47,425,000	(40,274,106)	127,974,054
Unamortized bond premium		990,378	(70,741)	919,637
Accreted interest obligation on capital appreciation bonds	1,950,735	106,771	(1,007,972)	1,049,534
	<u>\$ 135,738,229</u>	<u>\$ 50,569,530</u>	<u>\$ (43,054,250)</u>	<u>\$ 143,253,509</u>

General Obligation Bonds Payable

The following is a summary of general obligation bonds payable of the County for the year ended December 31, 2004:

\$28,376,380 1989 Refunding Bonds – Capital appreciation bond of \$1,700,000 due October 15, 2005 with approximate yield to maturity of 6.80%	579,054
\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$3,365,000 to \$12,150,000 through November 15, 2016, interest rates vary from 3.25% to 5.00%	85,515,000
\$47,425,000 2004 General Obligation Bonds, serial bonds due in annual installments of \$130,000 to \$5,970,000 through November 15, 2017, interest rates vary from 3.00% to 5.00%	<u>41,880,000</u>
	<u>\$ 127,974,054</u>

The annual requirements to amortize all general obligation bonds payable as of December 31, 2004 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	7,349,054	6,828,381	14,177,435
2006	8,775,000	5,402,985	14,177,985
2007	9,050,000	5,128,997	14,178,997
2008	9,410,000	4,769,198	14,179,198
2009	9,760,000	4,418,197	14,178,197
2010 – 2014	55,970,000	14,910,805	70,880,805
2015 – 2017	27,660,000	1,991,735	29,651,735
	<u>\$ 127,974,054</u>	<u>\$ 43,450,298</u>	<u>\$ 171,424,352</u>

The County issued \$47,425,000 of General Obligation Bonds, Series 2004, dated August 15, 2004 at a net premium of \$990,378. Proceeds of the bonds provided funds for: (1) currently refunding of a portion of the County's General obligation Bonds, Series 1993, in the amount of \$33,260,000, (2) financing of approximately \$14,000,000 of capital improvement projects, and (3) paying bond issuance costs totaling \$406,129. The current refunding resulted in a decrease in total debt service payments of \$2,164,180 and an economic gain (difference between the present value of the old and the new debt service payments) of \$2,007,147.

NOTE 4 DEFEASED DEBT

Details of debt defeased by the County of Lehigh in prior years for which bonds remain outstanding at December 31, 2004 are as follows:

General Obligation Bond Issue and Final Maturity	Interest Rate	Amount Outstanding at December 31, 2004
Series of 1996	5.10% - 5.70%	\$37,515,000

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. County of Lehigh General Obligation Bonds, Series of 1989, Series of 1991, and Series of 1993 were called on November 15, 2004.

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.

COUNTY OF LEHIGH

NOTE 5 INTERFUND BALANCES

Interfund receivable and payable balances represent amounts due for one fund paying expenses on behalf of another fund or a fund collecting fees or charges that are due to another fund. Interfund receivable and payable balances of each individual fund as of December 31, 2004 are as follows:

	Receivable Fund			Total
	General Fund	Nonmajor Governmental Fund	Agency	
<u>Payable Fund:</u>				
General Fund			\$ 315	\$ 315
Health Choices Fund	\$ 6,120			\$ 6,120
Children and Youth Fund	\$ 3,133,372			\$ 3,133,372
Nonmajor Governmental Fund	\$ 74,609			\$ 74,609
Agency Fund	\$ 430,220	\$ 330		\$ 430,550
	<u>\$ 3,644,321</u>	<u>\$ 330</u>	<u>\$ 315</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. Interfund transfers to and transfers from of each individual fund for the year ended December 31, 2004 are as follows:

	Transfer In:				Total
	General Fund	Children and Youth Fund	Mental Retardation Fund	Nonmajor Governmental Fund	
<u>Transfer Out:</u>					
General Fund		\$3,904,007	\$ 714,108	\$23,304,525	\$27,922,640
Health Choices Fund				\$ 211,970	\$ 211,970
Children and Youth Fund	\$ 52,333			\$ 209,541	\$ 261,874
Mental Retardation Fund				\$ 63,994	\$ 63,994
Nonmajor Governmental Fund	\$1,165,738	\$ 42,065			\$ 1,207,803
Enterprise Fund	\$ 167,371				\$ 167,371
Internal Service Fund	\$ 40,875			\$ 1,157,295	\$ 1,198,170
	<u>\$1,426,317</u>	<u>\$3,946,072</u>	<u>\$ 714,108</u>	<u>\$24,947,325</u>	

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 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	\$10,092,437		(\$106,250)	\$9,986,187
Capital assets, being depreciated:				
Buildings and improvements	176,941,825	\$10,796,353	(276,425)	187,461,753
Machinery and equipment	35,128,287	1,802,836	(557,101)	36,374,022
Furniture and fixtures	3,568,975	199,079	(7,537)	3,760,517
Easements	7,327,125	898,422		8,225,547
Infrastructure	6,194,820	61,705		6,256,525
Other capital assets	1,264,168			1,264,168
Total capital assets, being depreciated	<u>230,425,200</u>	<u>13,758,395</u>	<u>(841,063)</u>	<u>243,342,532</u>
Total capital assets, historical cost	<u>240,517,637</u>	<u>13,758,395</u>	<u>(947,313)</u>	<u>253,328,719</u>
Less accumulated depreciation for:				
Buildings and improvements	(66,233,661)	(4,694,500)	266,367	(70,661,794)
Machinery and equipment	(28,145,170)	(2,119,806)	512,725	(29,752,251)
Furniture and fixtures	(2,216,311)	(267,615)	4,899	(2,479,027)
Easements	(906,158)	(194,408)		(1,100,566)
Infrastructure	(985,682)	(155,995)		(1,141,677)
Other capital assets	(1,071,107)	(65,963)		(1,137,070)
Total accumulated depreciation	<u>(99,558,089)</u>	<u>(7,498,287)</u>	<u>783,991</u>	<u>(106,272,385)</u>
Total capital assets, net of accumulated depreciation	<u>\$140,959,548</u>	<u>\$6,260,108</u>	<u>(\$163,322)</u>	<u>\$147,056,334</u>
Business-type activities:	Ending <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	5,386,247	\$19,219		5,405,466
Machinery and equipment	86,297			86,297
Furniture and fixtures	20,482			20,482
Total capital assets, being depreciated	<u>5,493,026</u>			<u>5,512,245</u>
Total capital assets, historical cost	<u>5,729,559</u>			<u>5,748,778</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,058,763)	(\$147,477)		(4,206,240)
Machinery and equipment	(70,383)	(6,811)		(77,194)
Furniture and fixtures	(20,482)			(20,482)
Total accumulated depreciation	<u>(4,149,628)</u>	<u>(154,288)</u>		<u>(4,303,916)</u>
Total capital assets, net of accumulated depreciation	<u>\$1,579,931</u>	<u>(\$154,288)</u>		<u>\$1,444,862</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 138,426
Executive	8,693
Administration	3,274,054
Planning	541,172
Human services	50,085
General services	191,421
Nursing homes	1,393,294
Corrections	1,495,320
Department of law	2,544
Courts	318,938
Development	<u>84,340</u>
 Total depreciation expense-governmental activities	 \$ <u>7,498,287</u>
 Total depreciation expense - business-type activities - enterprise funds	 \$ <u>154,288</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 Wachovia 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, 2004. 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 \$3,926,297, \$1,221,325, and \$0 for each of the fiscal years ended December 31, 2004, 2003, and 2002, respectively. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2004, 2003, and 2002.

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, 2004, 760 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, 2004, expenditures of approximately \$4,392,656 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 \$250,000 applicable to each occurrence.

Healthcare

The County provides several fixed-rated premium based health care plans. The plans offered include 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 \$500,000 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>
2003	\$ 5,410,010	\$ 1,252,665	\$ (465,483)	\$ (246,011)	\$ (1,102,161)	\$ 4,849,020
2004	\$ 4,849,020	\$ 963,494	\$ (167,162)	\$ (155,760)	\$ (1,545,671)	\$ 3,943,921

During 2004, 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.

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, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes	\$ 87,677,473	\$ 87,688,778	\$ 88,910,869	\$ 1,222,091
Grants and reimbursements	53,294,502	59,926,155	60,512,841	586,686
Departmental earnings	21,597,770	22,242,902	23,358,632	1,115,730
Costs and fines	2,978,500	2,978,501	2,992,982	14,481
Investment income	1,279,781	1,350,434	1,866,459	516,025
Rents	177,000	177,000	188,908	11,908
Payments in lieu of taxes	158,200	158,200	186,163	27,963
Other revenues	419,682	426,383	463,811	37,428
Total revenues	<u>167,582,908</u>	<u>174,948,353</u>	<u>178,480,665</u>	<u>3,532,312</u>
EXPENDITURES				
Elected officials	13,604,369	12,727,371	12,430,185	297,186
County executive	2,278,352	2,270,025	2,267,777	2,248
Administration	16,244,970	16,781,656	15,447,000	1,334,656
Planning	2,258,758	2,477,807	2,307,511	170,296
Human services	484,000	445,934	430,363	15,571
General services	11,626,442	12,334,617	11,650,372	684,245
Nursing homes	48,577,733	48,736,669	46,164,851	2,571,818
Corrections	25,554,680	24,171,765	23,864,002	307,763
Department of law	993,287	951,404	928,846	22,558
Courts	21,059,591	21,328,393	20,794,815	533,578
Development	1,776,804	7,980,780	6,906,158	1,074,622
Human resources	1,049,798	1,021,778	911,584	110,194
Total expenditures	<u>145,508,784</u>	<u>151,228,199</u>	<u>144,103,464</u>	<u>7,124,735</u>
Excess of revenues over (under) expenditures	<u>22,074,124</u>	<u>23,720,154</u>	<u>34,377,201</u>	<u>10,657,047</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	18,518,359	20,499,838	1,426,317	(19,073,521)
Indirect cost allocation in	8,696,102	8,645,430	1,977,760	(6,667,670)
Operating transfers out	(46,391,235)	(50,932,852)	(28,639,549)	22,293,303
Indirect cost allocation out	(6,414,966)	(6,364,294)	0	6,364,294
Total other financing sources (uses)	<u>(25,591,740)</u>	<u>(28,151,878)</u>	<u>(25,235,472)</u>	<u>2,916,406</u>
Net change in fund balances	(3,517,616)	(4,431,724)	9,141,729	13,573,453
Fund balances, January 1	32,716,000	34,684,187	38,838,170	4,153,983
Fund balances, December 31	<u>\$ 29,198,384</u>	<u>\$ 30,252,463</u>	<u>\$ 47,979,899</u>	<u>\$ 17,727,436</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 General Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2004

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ 10,788,703	\$ 53,649,449
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2003	7,291,898	
Accrued as receivables (net of deferred revenues) at December 31, 2004 but not recognized in budget	(8,891,557)	(8,891,557)
Change in appreciation of investments	418,305	(1,743,198)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2003	(5,430,825)	
Accrued as liabilities at December 31, 2004 but not recognized in budget	<u>4,965,205</u>	<u>4,965,205</u>
Budgetary Basis	<u>\$ 9,141,729</u>	<u>\$ 47,979,899</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, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 44,642,232	\$ 39,882,232	\$ 39,598,249	\$ (283,983)
Departmental earnings				
Costs and fines				
Investment income	400,000	400,000	683,444	283,444
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>45,042,232</u>	<u>40,282,232</u>	<u>40,281,693</u>	<u>(539)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	44,140,867	36,793,812	35,981,694	812,118
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>44,140,867</u>	<u>36,793,812</u>	<u>35,981,694</u>	<u>812,118</u>
Excess of revenues over (under) expenditures	<u>901,365</u>	<u>3,488,420</u>	<u>4,299,999</u>	<u>811,579</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(71,786)	(211,975)	(211,970)	5
Indirect cost allocation out	(44,581)	(44,581)	(44,581)	0
Total other financing sources (uses)	<u>(116,367)</u>	<u>(256,556)</u>	<u>(256,551)</u>	<u>5</u>
Net change in fund balances	784,998	3,231,864	4,043,448	811,584
Fund balances, January 1	<u>1,100,000</u>	<u>1,562,434</u>	<u>28,333,352</u>	<u>26,770,918</u>
Fund balances, December 31	<u>\$ 1,884,998</u>	<u>\$ 4,794,298</u>	<u>\$ 32,376,800</u>	<u>\$ 27,582,502</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Health Choices Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2004

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ 4,219,990	\$ 30,356,775
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2003	8,024	
Accrued as receivables (net of deferred revenues) at December 31, 2004 but not recognized in budget	(1,313,722)	(1,313,722)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2003	(2,204,591)	
Paid in cash during the year but deferred at December 31, 2004	(19,530)	(19,530)
Accrued as liabilities at December 31, 2004 but not recognized in budget	<u>3,353,277</u>	<u>3,353,277</u>
Budgetary Basis	<u>\$ 4,043,448</u>	<u>\$ 32,376,800</u>

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, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Grants and reimbursements	\$ 24,602,549	\$ 24,602,549	\$ 22,355,306	\$ (2,247,243)
Departmental earnings	2,000	2,000	156	(1,844)
Costs and fines				
Investment income	2,001	2,001	1,238	(763)
Rents				
Payments in lieu of taxes				
Other revenues	1	1	190	189
Total revenues	<u>24,606,551</u>	<u>24,606,551</u>	<u>22,356,890</u>	<u>(2,249,661)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	27,673,894	27,716,794	26,984,112	732,682
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>27,673,894</u>	<u>27,716,794</u>	<u>26,984,112</u>	<u>732,682</u>
Excess of revenues over (under) expenditures	<u>(3,067,343)</u>	<u>(3,110,243)</u>	<u>(4,627,222)</u>	<u>(1,516,979)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,986,000	4,028,065	3,946,072	(81,993)
Indirect cost allocation in				
Operating transfers out	(322,154)	(322,154)	(261,874)	60,280
Indirect cost allocation out	(596,503)	(596,503)	(553,045)	43,458
Total other financing sources (uses)	<u>3,067,343</u>	<u>3,109,408</u>	<u>3,131,153</u>	<u>21,745</u>
Net change in fund balances	0	(835)	(1,496,069)	(1,495,234)
Fund balances, January 1	0	835	(1,635,303)	(1,636,138)
Fund balances, December 31	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (3,131,372)</u>	<u>\$ (3,131,372)</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Children and Youth Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2004

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 2,693,677	\$ 4,850,286
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2003	7,423,731	
Accrued as receivables (net of deferred revenues) at December 31, 2004 but not recognized in budget	(10,433,193)	(10,433,193)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2003	(3,631,819)	
Accrued as liabilities at December 31, 2004 but not recognized in budget	2,451,535	2,451,535
Budgetary Basis	\$ (1,496,069)	\$ (3,131,372)

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Retardation Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 29,900,983	\$ 30,460,058	\$ 27,880,959	\$ (2,579,099)
Departmental earnings	15,000	15,000	39,842	24,842
Costs and fines				
Investment income	60,000	60,000	122,660	62,660
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>29,975,983</u>	<u>30,535,058</u>	<u>28,043,461</u>	<u>(2,491,597)</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	30,462,129	31,348,306	31,044,327	303,979
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>30,462,129</u>	<u>31,348,306</u>	<u>31,044,327</u>	<u>303,979</u>
Excess of revenues over (under) expenditures	<u>(486,146)</u>	<u>(813,248)</u>	<u>(3,000,866)</u>	<u>(2,187,618)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	764,689	764,689	714,108	(50,581)
Indirect cost allocation in				
Operating transfers out	(49,467)	(63,997)	(63,994)	3
Indirect cost allocation out	(229,076)	(229,076)	(192,831)	36,245
Total other financing sources (uses)	<u>486,146</u>	<u>471,616</u>	<u>457,283</u>	<u>(14,333)</u>
Net change in fund balances	0	(341,632)	(2,543,583)	(2,201,951)
Fund balances, January 1	5,400,000	5,402,032	5,506,668	104,636
Fund balances, December 31	<u>\$ 5,400,000</u>	<u>\$ 5,060,400</u>	<u>\$ 2,963,085</u>	<u>\$ (2,097,315)</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Retardation Fund
Adjustments to Reconcile GAAP Basis to Budgetary Basis
For the Year Ended December 31, 2004

	<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, 2003	210,126	
Received in cash during the year but deferred at December 31, 2004	555,462	555,462
Accrued as deferred revenue at December 31, 2003 but not recognized in budget	(4,189,472)	
Accrued as receivables at December 31, 2004 but not recognized in budget	(387,466)	(387,466)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2003	(2,751,969)	
Paid in cash during the year but deferred at December 31, 2004	(149,792)	(149,792)
Accrued as deferred expenditures at December 31, 2003 but not recognized in budget	1,224,647	
Accrued as liabilities at December 31, 2004 but not recognized in budget	2,944,881	2,944,881
Budgetary Basis	<u>\$ (2,543,583)</u>	<u>\$ 2,963,085</u>