

*County of Lehigh,  
Pennsylvania*

*December 31, 2006*

*Financial Statements  
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2006

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## 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, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, COUNTY OF LEHIGH adopted the provisions of Governmental Accounting Standards Board's Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2007, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners  
County of Lehigh

The management's discussion and analysis and budgetary comparison schedules on pages 3 through 10 and 43 through 50 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  
June 22, 2007

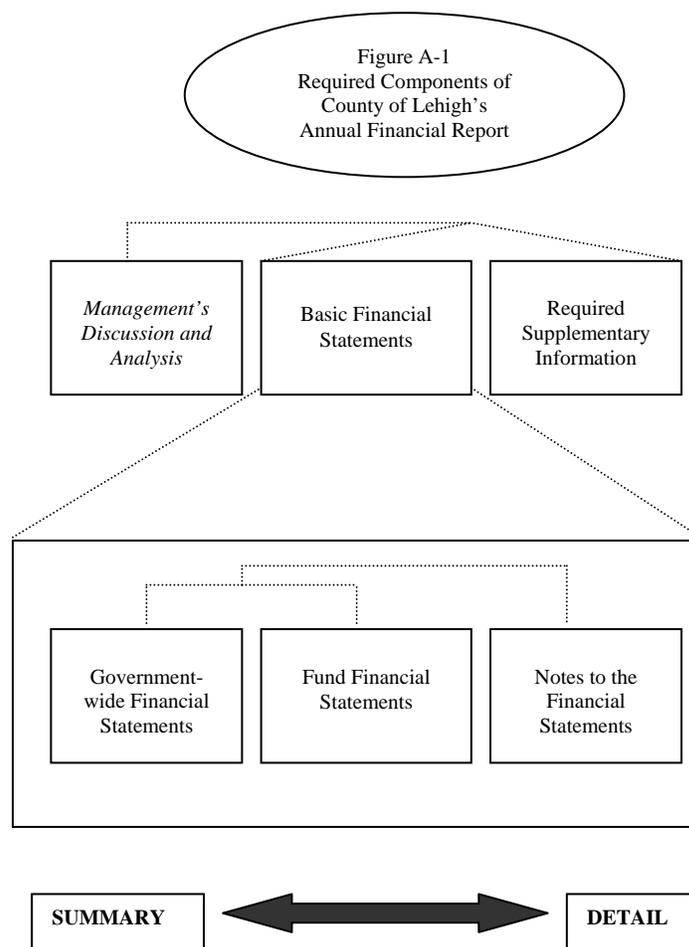
## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. 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 \$151 million at the close of the 2006 fiscal year. The following is a condensed summary of net assets for the years 2005 and 2006.

### County of Lehigh's Net Assets

	Total Governmental Activities		Total Business - Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 162,272,872	\$ 168,692,506	\$ 811,233	\$ 928,517	\$ 163,084,105	\$ 169,621,023
Capital assets	<u>148,877,745</u>	<u>155,374,721</u>	<u>1,290,891</u>	<u>1,195,625</u>	<u>150,168,636</u>	<u>156,570,346</u>
<b>Total Assets</b>	<b>311,150,617</b>	<b>324,067,227</b>	<b>2,102,124</b>	<b>2,124,142</b>	<b>313,252,741</b>	<b>326,191,369</b>
General obligation bonds payable	120,625,000	111,850,000			120,625,000	111,850,000
Other liabilities	<u>51,950,069</u>	<u>63,225,980</u>	<u>43,085</u>	<u>72,625</u>	<u>51,993,154</u>	<u>63,298,605</u>
<b>Total liabilities</b>	<b>172,575,069</b>	<b>175,075,980</b>	<b>43,085</b>	<b>72,625</b>	<b>172,618,154</b>	<b>175,148,605</b>
Net assets:						
Invested in capital assets, net of related debt	27,403,849	42,746,566	1,290,891	1,195,625	28,694,740	43,942,191
Restricted	45,453,838	47,882,068			45,453,838	47,882,068
Unrestricted	<u>65,717,861</u>	<u>58,362,613</u>	<u>768,148</u>	<u>855,892</u>	<u>66,486,009</u>	<u>59,218,505</u>
<b>Total net assets</b>	<b>\$ 138,575,548</b>	<b>\$ 148,991,247</b>	<b>\$ 2,059,039</b>	<b>\$ 2,051,517</b>	<b>\$ 140,634,587</b>	<b>\$ 151,042,764</b>

Current and other assets increased \$6.5 million largely due to an increase in grants receivable of \$6 million resulting from an increase in Medical Assistance receivables of \$2.1 million, an increase in Children and Youth Act 148 receivables of \$1.3 million, and an increase in RACP community development receivables of \$1.7 million. Capital assets (net of accumulated depreciation) increased \$6.4 million due to the net of \$15 million in capital asset purchases and \$8.6 million in current year accumulated depreciation. See page 9 and Note 5 on page 35 for additional capital asset information.

Unrestricted net assets decreased \$7.3 million largely due to the adoption of GASB Statement No. 45 in 2006 which required the recording of an additional \$5.9 million of expenses for health and life insurance benefits for eligible retirees. See Note 7 on page 38 for additional information concerning postemployment benefits other than pensions.

Net assets invested in capital assets increased \$15.3 million due to the net of the \$6.4 million increase in capital assets (net of accumulated depreciation) discussed above and a decrease in general obligation bonds payable of \$8.8 million resulting from current year principal payments. More detailed information about the County's long-term debt is presented in Note 3 on Page 33.

**Changes in Net Assets:**

The following is a summary of the key elements comprising the changes in net assets for the years 2005 and 2006.

**County of Lehigh's Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues:						
Program revenue:						
Charges for services	\$ 27,612,114	\$ 24,685,963	\$ 774,086	\$ 795,318	\$ 28,386,200	\$ 25,481,281
Operating grants and contributions	214,146,779	232,150,517			214,146,779	232,150,517
General revenues:						
Property taxes	90,762,069	89,502,011			90,762,069	89,502,011
Unrestricted investment earnings	<u>5,224,573</u>	<u>7,925,439</u>	<u>26,010</u>	<u>46,581</u>	<u>5,250,583</u>	<u>7,972,020</u>
<b>Total revenues</b>	<b>337,745,535</b>	<b>354,263,930</b>	<b>800,096</b>	<b>841,899</b>	<b>338,545,631</b>	<b>355,105,829</b>
Expenses:						
Elected officials	14,965,533	16,610,860			14,965,533	16,610,860
County executive	2,986,333	3,797,969			2,986,333	3,797,969
Administration	9,604,686	11,070,978			9,604,686	11,070,978
Planning	2,824,767				2,824,767	
Human services	153,804,184	163,855,489	812,576	849,421	154,616,760	164,704,910
General services	12,200,093	15,530,752			12,200,093	15,530,752
Nursing homes	52,155,874	57,443,554			52,155,874	57,443,554
Corrections	28,299,867	31,476,816			28,299,867	31,476,816
Department of law	210,629	(32,763)			210,629	(32,763)
Courts	29,625,715	31,548,659			29,625,715	31,548,659
Development	3,091,029	8,285,104			3,091,029	8,285,104
Human resources	43,747				43,747	
Interest on long-term debt	<u>5,778,847</u>	<u>4,260,813</u>			<u>5,778,847</u>	<u>4,260,813</u>
<b>Total expenses</b>	<b>315,591,304</b>	<b>343,848,231</b>	<b>812,576</b>	<b>849,421</b>	<b>316,403,880</b>	<b>344,697,652</b>
<b>Changes in net assets</b>	<b>22,154,231</b>	<b>10,415,699</b>	<b>(12,480)</b>	<b>(7,522)</b>	<b>22,141,751</b>	<b>10,408,177</b>
Ending net assets	<u>\$138,575,548</u>	<u>\$148,991,247</u>	<u>\$ 2,059,039</u>	<u>\$ 2,051,517</u>	<u>\$140,634,587</u>	<u>\$151,042,764</u>

The County's total revenues increased \$16.6 million to \$355.1 million due to:

- A decrease in charges for services of \$2.9 million due to the transfer of operational and maintenance responsibilities of the wastewater pretreatment plant owned by the County to the Lehigh County Authority (LCA) effective May 15, 2006. Related revenues generated from plant activities also transferred to the LCA.
- An increase in operating grants and contributions of \$18 million largely due to the following increases in Human Services funds: \$5.3 million in Health Choices, \$1.7 million in Children and Youth, \$1.2 million in Mental Health, \$.9 million in Mental Retardation, \$.9 million in Drug and Alcohol, and \$1.9 million in Area Agency on Aging. Also, RACP community development grants increased \$4.9 million.
- A decrease in property tax revenue of \$1.3 million due to a decrease in millage rate from 10.75 in 2005 to 10.25 in 2006. Approximately 25% of total revenues are from property tax revenue.
- An increase in investment earnings of \$2.7 million due to favorable cash flows and interest rates.

The County's expenditures totaled \$344.7 million. The Human Services and Nursing Homes functions comprise 64% of the total expenditures. The Corrections and Courts functions comprise 18% of the total expenditures. The Planning and Human Resources functions were reorganized in 2006 and are included in the General Services and Administration functions, respectively.

## **Financial Analysis of the Governmental Funds**

The County's governmental funds combined fund balances were \$120.5 million, which is a \$2.3 million increase from the prior year. The primary reasons for this increase in fund balances were:

- The General Fund increased \$5.7 million largely due to favorable budgetary variations in workforce and improved operational procedures as well as overall net favorable financing transfers to other funds discussed below.
- The Health Choices Fund increased \$3 million due to changes in state capitation rates.
- Children and Youth Fund increased \$1.5 million largely due to changes in cost allocation and revenue application procedures.
- The Other Governmental Funds decreased \$7.9 million largely due to the net of a decrease in Other Capital Projects Fund of \$6.8 million, a decrease in Bond Fund 2001 of \$.8 million, and a decrease in Bond Fund 2004 of \$1.2 million.

## **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 \$4 million, or 2.6 percent. This increase is largely due to an increase in the Development expenditure budget from \$1.4 million to \$5.5 million which is the result of revisions of \$3.7 million for the state funded Redevelopment Assistance Capital Program (RACP). These projects were not originally budgeted and are funded by state grant revenues. Also, the General Services expenditures budget decreased from \$14.4 million to \$12.7 million due to the transfer of operational and maintenance responsibilities of the wastewater pretreatment plant owned by the County to the Lehigh County Authority effective May 15, 2006. The original budget included a full year of operational and maintenance costs.

### Final Budget vs. Actual

- \$1.2 million favorable variance in property tax revenues.
- \$20 million unfavorable variance in grant revenues largely due to the Lehigh County Minor League Ballpark project. Related budgeted construction costs have not been incurred to be reimbursed. See page 9 and Note 13 on page 42 for additional information on the Lehigh County Minor League Ballpark.
- \$1.7 million favorable variance in investment income due to favorable cash flows and interest rates.
- \$1.1 million favorable variance in Administration expenditures largely due to favorable healthcare experience.
- \$1.7 million favorable variance in Nursing Home expenditures due to favorable budgetary variations in workforce and improved operational procedures.
- \$.6 million favorable variance in Development expenditures due to various budgeted community development projects that have not been completed.
- Overall net favorable other financing sources / (uses) variance of \$40.5 million largely due to anticipated capital asset activity that did not occur. Funding of these projects, which totaled \$35.8 million, is achieved through transfers from individual funds to the Other Capital Projects Fund. For instance, the Operating Fund did not transfer \$17 million that was budgeted for Minor League Ballpark construction costs that did not occur. As noted above, the corresponding grant revenue was not received. Also, \$3.6 million General Fund transfer to the Debt Service Fund was not necessary as a budgeted issuance of general obligation bonds in 2006 did not occur.

## Capital Assets

The following is a schedule of the County's capital assets as of December 31, 2005 and December 31, 2006:

### County of Lehigh's Capital Assets

	<u>Total Governmental Activities</u>		<u>Total Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	\$ 10,520,870	\$ 11,353,227	\$ 236,533	\$ 236,533	\$ 10,757,403	\$ 11,589,760
Buildings and improvements	116,295,977	118,803,957	1,051,509	959,092	117,347,486	119,763,049
Machinery and equipment	7,435,822	8,841,164	2,849		7,438,671	8,841,164
Furniture and Fixtures	1,034,365	1,014,238			1,034,365	1,014,238
Easements	7,927,772	8,301,764			7,927,772	8,301,764
Infrastructure	5,662,939	7,060,371			5,662,939	7,060,371
<b>Total</b>	<b>\$ 148,877,745</b>	<b>\$ 155,374,721</b>	<b>\$ 1,290,891</b>	<b>\$ 1,195,625</b>	<b>\$ 150,168,636</b>	<b>\$ 156,570,346</b>

Noteworthy capital asset purchases/projects that took place in 2006 were as follows:

- Purchased additional land easements for agricultural land preservation
- Continuation of the courthouse renovation expansion project and participation in the construction of a new parking deck for the courthouse
- Purchased electronic voting machines to comply with federal law
- Lehigh County Minor League Ballpark. The stadium, at a cost of \$48.4 million, will have fixed seating for 7,000 people. An additional 3,000 fans will be accommodated with party decks, picnic areas, and luxury boxes, as well as an outfield berm area for more picnickers. On site parking for 2,500 cars will be provided. The ballpark is being built on a 25.75 acre tract of land, formerly part of the Agere Systems property, located between American Parkway and Union Boulevard in east Allentown, Pennsylvania. The initial construction costs incurred in 2006 were advanced from the General Fund pending reimbursement from a bond issuance. More detailed information about the resulting bond issuance is presented in Note 13 on Page 42.
- Major bridge reconstruction
- Open space acquisition

Additional information of the County's Capital Assets can be found in Note 5 on page 35.

## Debt Administration

At year-end the County had \$111.9 million in general obligation bonds outstanding. More detailed information about the County's long-term liabilities is presented in Note 3 on Page 33.

The County's general obligation debt rating has been upgraded from Aa3 to Aa2 by Moody's Investor Services due to the County's stable financial position.

State statutes limit the amount of general obligation debt a governmental entity may issue. The current debt limitation for the County of Lehigh is \$552 million as stated within the official statement of the County's most recent bond issuance, which is significantly in excess of the County's outstanding general obligation debt.

### **Economic Factors and Next Year's Budgets and Rates**

- Unemployment in the Allentown-Bethlehem-Easton metropolitan area now stands at 4.2 percent versus 4.6 percent a year ago. This is the same as the state's rate of 4.2 percent and slightly lower than the national rate of 4.5 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, and medical costs.
  - County inflation was 6.8 percent for year-end 2006.
  - The national rate was 3.2 percent.

These indicators were taken into account when adopting the general fund budget for 2007.

Property tax millage for 2007 is the same as 2006 - 10.25 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, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 125,358,027	\$ 928,232	\$ 126,286,259
Investments	3,263,297		3,263,297
Receivables:			
Grants	25,274,157		25,274,157
Real estate taxes	3,526,441		3,526,441
Interest and dividends	522,129		522,129
Mortgage	1,214,560		1,214,560
Other	2,788,822	285	2,789,107
Unamortized bond issuance costs	319,102		319,102
Other	389,083		389,083
Cash and cash equivalents - restricted	6,036,888		6,036,888
Capital assets (net of accumulated depreciation)	<u>155,374,721</u>	<u>1,195,625</u>	<u>156,570,346</u>
Total assets	<u>324,067,227</u>	<u>2,124,142</u>	<u>326,191,369</u>
<b>LIABILITIES</b>			
Accounts payable	25,645,492	57,497	25,702,989
Deposits and agency amounts payable	6,036,888		6,036,888
Accrued payroll and payroll taxes	3,487,212	3,648	3,490,860
Due to other governmental units	570,803		570,803
Unearned revenues:			
Grants	3,715,772		3,715,772
Other	1,511,165		1,511,165
Current portions of long term liabilities:			
General obligation bonds payable	9,050,000		9,050,000
Unamortized bond premium	70,741		70,741
Noncurrent portions of long term liabilities:			
Accrued vacation and other compensation	10,639,934		10,639,934
Accrued worker's compensation	4,905,252		4,905,252
General obligation bonds payable	102,800,000		102,800,000
Unamortized bond premium	707,414		707,414
Unfunded other postemployment benefits	5,935,307	11,480	5,946,787
Total liabilities	<u>175,075,980</u>	<u>72,625</u>	<u>175,148,605</u>
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	42,746,566	1,195,625	43,942,191
Restricted for:			
Program expenditures	39,754,581		39,754,581
Bond financed improvements	8,127,487		8,127,487
Unrestricted	58,362,613	855,892	59,218,505
Total net assets	<u>\$ 148,991,247</u>	<u>\$ 2,051,517</u>	<u>\$ 151,042,764</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, 2006

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	\$ 15,175,661	\$ 1,435,199	\$ 5,482,894	\$ 1,591,312	\$ (9,536,654)		\$ (9,536,654)
County executive	2,971,318	826,651	4,614	1,437,512	(2,355,843)		(2,355,843)
Administration	21,886,615	(10,815,637)	3,405,130	727,298	(6,938,550)		(6,938,550)
Human services	161,981,742	1,873,747	269,339	159,389,585	(4,196,565)		(4,196,565)
General services	16,067,823	(537,071)	2,033,761	6,182,970	(7,314,021)		(7,314,021)
Nursing homes	53,910,338	3,533,216	5,945,953	47,423,361	(4,074,240)		(4,074,240)
Corrections	29,966,464	1,510,352	2,944,377	1,794,748	(26,737,691)		(26,737,691)
Department of law	1,252,608	(1,285,371)	102,889		135,652		135,652
Courts	28,269,395	3,279,264	3,715,447	6,945,928	(20,887,284)		(20,887,284)
Development	8,153,611	131,493	781,559	6,657,803	(845,742)		(845,742)
Interest on long-term debt	4,260,813				(4,260,813)		(4,260,813)
Total governmental activities	\$ 343,896,388	\$ (48,157)	\$ 24,685,963	\$ 232,150,517	\$ (87,011,751)		\$ (87,011,751)
Business-type activities:							
Enterprise funds	\$ 801,264	\$ 48,157	\$ 795,318			\$ (54,103)	\$ (54,103)
Total primary government	\$ 344,697,652	\$ 0	\$ 25,481,281	\$ 232,150,517	\$ (87,011,751)	\$ (54,103)	\$ (87,065,854)
General revenues:							
Taxes					89,502,011		89,502,011
Unrestricted investment earnings					7,925,439	46,581	7,972,020
Total general revenues					97,427,450	46,581	97,474,031
Change in net assets					10,415,699	(7,522)	10,408,177
Net assets, January 1					138,575,548	2,059,039	140,634,587
Net assets, December 31					\$ 148,991,247	\$ 2,051,517	\$ 151,042,764

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

COUNTY OF LEHIGH, PENNSYLVANIA  
Balance Sheet  
Governmental Funds  
December 31, 2006

	General	Health Choices	Children and Youth	Mental Retardation	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 60,959,350	\$ 38,151,845	\$ 799,934	\$ 4,817,633	\$ 16,340,287	\$ 121,069,049
Investments	3,263,297					3,263,297
Receivables:						
Grants	10,797,658	4,864	5,334,723	399,110	8,737,802	25,274,157
Real estate taxes	3,526,441					3,526,441
Interest and dividends	522,129					522,129
Mortgage	1,214,560					1,214,560
Other	1,523,086	56	13,805	4,659	1,247,216	2,788,822
Other	187,999			174,858	26,226	389,083
Cash and cash equivalents - restricted	1,062,888	4,974,000				6,036,888
Total assets	<u>\$ 83,057,408</u>	<u>\$ 43,130,765</u>	<u>\$ 6,148,462</u>	<u>\$ 5,396,260</u>	<u>\$ 26,351,531</u>	<u>\$ 164,084,426</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	4,845,379	1,920,583	2,406,560	5,336,247	11,102,539	25,611,308
Deposits and agency amounts payable	1,062,888	4,974,000				6,036,888
Payroll and payroll taxes	2,914,751	11,238	212,265	60,013	271,176	3,469,443
Due to other governmental units	368,403				202,400	570,803
Unearned revenues:						
Grants	350,000				3,365,772	3,715,772
Real estate taxes	2,656,751					2,656,751
Other	311,143				1,200,022	1,511,165
Total liabilities	<u>12,509,315</u>	<u>6,905,821</u>	<u>2,618,825</u>	<u>5,396,260</u>	<u>16,141,909</u>	<u>43,572,130</u>
Fund balances:						
Reserved for:						
Program expenditures		36,224,944	3,529,637			39,754,581
Bond financed improvements					8,127,487	8,127,487
Unreserved	70,548,093				2,082,135	72,630,228
Total fund balances	<u>70,548,093</u>	<u>36,224,944</u>	<u>3,529,637</u>	<u>0</u>	<u>10,209,622</u>	<u>120,512,296</u>
Total liabilities and fund balances	<u>\$ 83,057,408</u>	<u>\$ 43,130,765</u>	<u>\$ 6,148,462</u>	<u>\$ 5,396,260</u>	<u>\$ 26,351,531</u>	<u>\$ 164,084,426</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, 2006**

Total fund balances for governmental funds \$ 120,512,296

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	11,353,227	
Buildings and improvements, net of \$80,609,093 accumulated depreciation	118,803,957	
Machinery and equipment, net of \$35,502,982 accumulated depreciation	8,841,164	
Furniture and fixtures, net of \$3,004,948 accumulated depreciation	1,014,238	
Easements, net of \$1,557,799 accumulated depreciation	8,301,764	
Infrastructure, net of \$1,501,875 accumulated depreciation	<u>7,060,371</u>	

Total capital assets 155,374,721

An Internal service fund is used to account for operational, debt service, and depreciation expenses of the Government Center Building that are reimbursed through building use allocations and parking rentals. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. 4,237,025

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. 319,102

Some of the County's taxes will be collected after year end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unearned revenue in the funds. 2,656,751

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, 2006 are:

Accrued vacation and other compensation	(10,639,934)	
Accrued worker's compensation	(4,905,252)	
Bonds and notes payable	(111,850,000)	
Unamortized bond premium	(778,155)	
Unfunded other postemployment benefits	<u>(5,935,307)</u>	<u>(134,108,648)</u>

Total net assets of governmental activities \$ 148,991,247

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, 2006

	General	Health Choices	Children and Youth	Mental Retardation	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 89,595,505					\$ 89,595,505
Grants and reimbursements	66,583,487	\$ 54,754,363	\$ 24,198,598	\$ 33,375,583	\$ 53,238,486	232,150,517
Departmental earnings	19,859,103		11,459	8,207	517,053	20,395,822
Judicial costs and fines	3,262,726				52,108	3,314,834
Investment income	4,728,228	2,050,238	36,891	336,047	774,035	7,925,439
Rents	185,506				125	185,631
Other	649,032		1,453		68,450	718,935
Total revenues	<u>184,863,587</u>	<u>56,804,601</u>	<u>24,248,401</u>	<u>33,719,837</u>	<u>54,650,257</u>	<u>354,286,683</u>
<b>EXPENDITURES</b>						
Elected officials	14,195,835				422,868	14,618,703
County executive	2,544,237				2,061,042	4,605,279
Administration	18,291,233				4,150,565	22,441,798
Human services	475,062	53,479,094	25,305,235	33,946,478	48,553,770	161,759,639
General services	11,786,532				9,567,086	21,353,618
Nursing homes	49,096,520				1,046,408	50,142,928
Corrections	27,537,588				164,272	27,701,860
Department of law	1,209,113					1,209,113
Courts	22,684,163				4,901,291	27,585,454
Development	6,399,843				1,673,000	8,072,843
Indirect cost allocation charges	(2,128,219)	68,475	650,737	220,353	1,140,497	(48,157)
Debt Service:						
Principal retirement					8,508,875	8,508,875
Interest					4,260,813	4,260,813
Total expenditures	<u>152,091,907</u>	<u>53,547,569</u>	<u>25,955,972</u>	<u>34,166,831</u>	<u>86,450,487</u>	<u>352,212,766</u>
Excess of revenues over (under) expenditures	<u>32,771,680</u>	<u>3,257,032</u>	<u>(1,707,571)</u>	<u>(446,994)</u>	<u>(31,800,230)</u>	<u>2,073,917</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	5,754,988		3,692,542	568,444	29,693,525	39,709,499
Operating transfers out	(32,841,398)	(234,195)	(516,074)	(121,450)	(5,786,649)	(39,499,766)
Total other financing sources / (uses)	<u>(27,086,410)</u>	<u>(234,195)</u>	<u>3,176,468</u>	<u>446,994</u>	<u>23,906,876</u>	<u>209,733</u>
Net change in fund balances	5,685,270	3,022,837	1,468,897	0	(7,893,354)	2,283,650
Fund balances, January 1	64,862,823	33,202,107	2,060,740	0	18,102,976	118,228,646
Fund balances, December 31	<u>\$ 70,548,093</u>	<u>\$ 36,224,944</u>	<u>\$ 3,529,637</u>	<u>\$ 0</u>	<u>\$ 10,209,622</u>	<u>\$ 120,512,296</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, 2006**

Net change in fund balances – total governmental funds \$ 2,283,650

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. 6,496,976

The repayment of long-term debt principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 8,550,607

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	(802,391)	
Accrued vacation and other compensation	(803,212)	
Unearned real estate tax revenue	(93,494)	
Other postemployment benefits	<u>(5,935,307)</u>	
		(7,634,404)

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 \$660,781 depreciation which is included in the capital outlays adjustment above) is included in the governmental activities. 718,870

Change in net assets of governmental activities \$ 10,415,699

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, 2006

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 928,232	\$ 4,288,978
Other receivables	285	
Total current assets	928,517	4,288,978
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,461,466	21,013,271
Equipment	80,727	1,019,877
Furniture and fixtures	20,482	1,441,539
Less accumulated depreciation	(4,603,583)	(6,803,518)
Total capital assets (net of accumulated depreciation)	1,195,625	16,671,169
<b>TOTAL ASSETS</b>	\$ 2,124,142	\$ 20,960,147
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 57,497	\$ 34,184
Accrued payroll and payroll taxes	3,648	17,769
Current portion of general obligation bonds payable		266,125
Total current liabilities	61,145	318,078
Noncurrent liabilities:		
General obligation bonds payable		22,429,886
Unfunded other postemployment benefits	11,480	
<b>TOTAL LIABILITIES</b>	72,625	22,747,964
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,195,625	(6,024,842)
Unrestricted	855,892	4,237,025
<b>TOTAL NET ASSETS</b>	\$ 2,051,517	\$ (1,787,817)

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

COUNTY OF LEHIGH, PENNSYLVANIA  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2006

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
<b>OPERATING REVENUES</b>		
Tenant rentals - Cedar View	\$ 795,318	
Government Center revenues		\$ 3,186,166
Total operating revenues	<u>795,318</u>	<u>3,186,166</u>
<b>OPERATING EXPENSES</b>		
Administration and maintenance:		
Cedar View apartments	649,998	
Government Center		1,335,581
Depreciation	151,266	660,781
Indirect cost allocation charges	48,157	
Total operating expenses	<u>849,421</u>	<u>1,996,362</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(54,103)</u>	<u>1,189,804</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	46,581	220,190
Interest expense		(1,142,172)
Total nonoperating revenues (expenses)	<u>46,581</u>	<u>(921,982)</u>
<b>OTHER FINANCING USES</b>		
Transfers out		(209,733)
Change in net assets	(7,522)	58,089
Total net assets (deficit), January 1	<u>2,059,039</u>	<u>(1,845,906)</u>
Total net assets (deficit), December 31	<u>\$ 2,051,517</u>	<u>\$ (1,787,817)</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, 2006

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 795,243	\$ 3,186,166
Payments to suppliers	(437,524)	(474,972)
Payments to employees	(138,580)	(645,907)
Payments of benefits on behalf of employees	(44,354)	(218,037)
Indirect cost allocation charges	(48,157)	
Net cash provided by operating activities	126,628	1,847,250
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to other funds		(209,733)
Net cash used for noncapital financing activities		(209,733)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(56,000)	
Principal paid on capital debt		(266,125)
Interest paid on capital debt		(1,142,172)
Net cash used by capital and related financing activities	(56,000)	(1,408,297)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	46,581	220,190
Net cash provided by investing activities	46,581	220,190
Net increase in cash and cash equivalents	117,209	449,410
Cash and cash equivalents, January 1	811,023	3,839,568
Cash and cash equivalents, December 31	\$ 928,232	\$ 4,288,978
<b>Reconciliation of operating income / (loss) to net cash provided by operating activities:</b>		
Operating income / (loss)	\$ (54,103)	\$ 1,189,804
Adjustments to reconcile operating income / (loss) to net cash provided by operating activities:		
Depreciation expense	151,266	660,781
Change in assets and liabilities:		
Increase in other receivables	(75)	
Increase (decrease) in accounts payable	17,176	(4,705)
Increase in payroll and payroll taxes payable	884	1,370
Increase in unfunded other postemployment benefits payable	11,480	
Net cash provided by operating activities	\$ 126,628	\$ 1,847,250

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, 2006

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 46,173,986	\$ 13,297,236
Investments, at fair value:		
United States government and municipal obligations	12,851,448	49,777
Corporate and foreign bonds	4,680,653	106,355
Collateralized mortgages	59,753	300,291
Common stock	125,794,090	
Mutual fund - corporate bonds	53,166,376	
Mutual fund - common stock	61,051,000	
Mutual fund - foreign stock	48,804,192	
Total investments	<u>306,407,512</u>	<u>456,423</u>
Receivables:		
Interest and dividends	570,660	
Employee contributions	165,504	
Other		29,783
Total receivables	<u>736,164</u>	<u>29,783</u>
 Total assets	 <u>\$ 353,317,662</u>	 <u>\$ 13,783,442</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 191,091	\$ 489,669
Deposits and agency amounts payable		9,589,179
Due to other governmental units		3,704,594
Withdrawals payable	47,628	
Pension benefits payable	710,673	
Due to broker	563,477	
Total liabilities	<u>\$ 1,512,869</u>	<u>\$ 13,783,442</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits	<u>\$ 351,804,793</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, 2006

	Employee Retirement Plan
<b>ADDITIONS</b>	
Contributions:	
Employee	\$ 5,311,238
Employer	6,325,873
Total contributions	11,637,111
Investment income:	
Interest and dividend income	12,295,598
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	484,356
Corporate and foreign bonds	(571,050)
Collateralized mortgages	(5,518)
Common stock	18,884,603
Mutual fund - United States government obligations	(899,638)
Mutual fund - corporate bonds	636,076
Mutual fund - common stock	8,323,412
Mutual fund - foreign stock	5,093,810
	31,946,051
Less investment expenses	(994,993)
Net investment income	43,246,656
Other additions	14,708
Total additions	54,898,475
<b>DEDUCTIONS</b>	
Employee contributions refunded	900,126
Retirement benefits paid	13,197,568
Death benefits paid	478,780
Administrative expense	36,454
Total deductions	14,612,928
Change in net assets	40,285,547
Net assets, January 1	311,519,246
Net assets, December 31	\$ 351,804,793

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, 2006**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

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

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

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

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

1. Component Unit - A legally separate organization for which elected officials of the County are financially accountable. This type of entity may then be reported in one of the two following manners:
  - Discrete presentation - Financial data for the component unit is presented in a column separate from that of the County's financial data. There is no such presentation for the County's financial statements.
  - Blended presentation - Financial data for the component unit is presented in the same manner as that of the County's financial data and is reported as part of the County's financial operations. There is no such presentation for the County's financial statements.

2. Joint Venture - A legal entity or other organization that results from a contractual arrangement is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility. There are no such entities included in the County's reporting entity.
3. Related Organization - An organization for which the County is not financially accountable even though the County appoints a voting majority of the organization's governing board.

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

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

In addition, the County supports the Lehigh Valley Planning Commission which is engaged in general, regional, environmental, transportation, housing and other studies. In 2006, the County paid \$475,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2006, the County provided \$309,000 in subsidies to this Authority. The County Executive appoints, and the County Board of Commissioners approves, one half of the governing board for each organization. These two organizations have been determined to be related organizations.

## **Measurement Focus and Basis of Accounting**

### Government-wide Financial Statements

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

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

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

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

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

#### Fund Financial Statements

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

### ***Governmental Funds***

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, except taxes, to be available if they are collected within 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 Fund***

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

#### ***Internal Service Fund***

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

### ***Fiduciary Funds***

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

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

### **Cash and Cash Equivalents**

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

### **Investments**

The County accounts for its investments at fair value.

### **Real Estate Taxes**

Substantially all real estate taxes are levied annually on April 1 with the face amount due by July 31. Unpaid taxes become delinquent on December 31 in the year of levy. Current year and delinquent tax payments are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenue as of December 31. The 2006 real estate taxes assessed equaled \$88,553,856 based on a total County valuation of \$8,639,385,450. Based on the 2006 levy of 10.25 mills, a property owner would pay \$10.25 per \$1,000 of assessed valuation.

The dates relevant to the collection of delinquent 2006 real estate taxes are as follows:

July 31, 2007	Notices of unpaid delinquent taxes must be mailed by the County.
August 31, 2008	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 8, 2008	This is the earliest date on which the County may conduct the tax sale (upset sale) to recover unpaid delinquent taxes, penalties, costs, and interest.
December 10, 2008	This is the earliest date on which the County would conduct the judicial tax sale for parcels remaining unsold at the previous upset sale to recover all costs incurred by the County in its attempt to collect unpaid taxes on a particular parcel (actual taxes, interest, and penalties are waived). Parcels remaining unsold after the judicial tax sale are placed in a repository for unsold properties.

## **Capital Assets**

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

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

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

## **Unearned Revenues**

Unearned revenues reported in the government-wide financial statements represent unearned revenues. The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as unearned revenues. The County deems revenues received within 180 days of year end to be available with the exception of property taxes which must be received within 60 days of year end to be deemed available.

## **Net Assets/Fund Balances**

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

- *Invested in Capital Asset, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the County, not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

## **Accounting Estimates**

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

## **Adoption of Governmental Accounting Standards Board Statements**

The County adopted the provisions of GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*”. The adoption of this statement resulted in the modification of the financial reporting disclosure information required by the County and a liability for unfunded postemployment benefits, which is being implemented on a prospective basis. See Note 7 for additional information regarding the adoption of this statement.

The County adopted the provisions of GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation*”. The adoption of this statement had no effect on previously reported amounts.

The County adopted the provisions of GASB Statement No. 47, “*Accounting for Termination Benefits*”. The adoption of this statement had no effect on previously reported amounts.

## **Pending Changes in Accounting Principles**

GASB has issued Statement No. 48, “*Sales and Pledges of Receivables and Future Reserves and Intra-Entity Transfers of Assets and Future Revenues*”. The County is required to adopt Statement No. 48 for its calendar year 2007 financial statements.

The County has not yet completed the various analyses required to estimate the financial statement impact of this new pronouncement.

**NOTE 2 DEPOSIT AND INVESTMENT RISK**

As of December 31, 2006, the County had the following debt investments and maturities within its governmental, proprietary, and agency funds:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Cash and cash equivalents	\$ 145,620,383	\$ 145,620,383			
U.S. government treasuries	3,313,074	752,395	\$ 2,560,679		
Corporate bonds	106,355	9,997	57,686	38,672	
Total	\$ 149,039,812	\$ 146,382,775	\$ 2,618,365	38,672	

As of December 31, 2006, the County had the following debt investments and maturities within its Employee Retirement Plan Fund:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Cash and cash equivalents	\$ 46,173,986	\$ 46,173,986			
U.S. government treasuries	1,591,206			\$ 1,247,562	\$ 343,644
U.S. government agencies	11,260,242		\$ 4,403,164	2,680,717	4,176,361
Corporate bonds	4,680,653		1,944,147	1,022,716	1,713,790
Total	\$ 63,706,087	\$ 46,173,986	\$ 6,347,311	\$ 4,950,995	\$ 6,233,795

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

The County’s Retirement Plan Investment Policy states that emphasis shall be placed on providing adequate and timely investment cash flow to permit benefit payments from the Retirement Plan when due. Fixed income investment allocation is targeted to 34% (with an allowable range of +/- 5%) of the portfolio. The investments may be adjusted to meet economic and/or investment market conditions.

*Credit Risk* – The County’s investment policy limits operating fund’s investments in federal agency securities that carry direct or implied guarantees of the U.S. Government. The County’s governmental activities investments of \$3,313,074 were comprised of various U.S. Treasury Bills, all of which will mature within one year or one to five years, as noted above.

The County’s Retirement Investment Policy states that the overall rating of the fixed income assets shall be at least “A”. In cases where the yield spread adequately compensates for additional risk, “BAA” or “BBB” ratings can be purchased up to a maximum of 15% of the total market value of fixed income securities. The County is in compliance with the Retirement Investment Policy. Fixed income securities invested in mutual funds are excluded from the table below.

As of December 31, 2006, the County's retirement investments had a credit rating as follows:

Investment Type	Credit Quality Rating	Percent of Investment Type
Cash Equivalent	Aaa	100%
U.S. Government Treasuries	Aaa	100%
U.S. Government Agencies	Aaa	100%
Corporate Bonds	Aaa	10%
Corporate Bonds	A1	12%
Corporate Bonds	A2	7%
Corporate Bonds	A3	12%
Corporate Bonds	Aa2	28%
Corporate Bonds	Aa3	19%
Corporate Bonds	Baa2	6%
Corporate Bonds	Baa3	6%

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

As of December 31, 2006, the County's cash and restricted cash balances for its governmental activities, business-type activities and agency funds were \$145,620,383 and its bank balances were \$153,813,916. The entire bank balance was either insured or collateralized with securities held by the pledging financial institutions, or by their trust departments or agents, but not in the County's name. The entire cash and cash equivalent balance in the Employee Retirement Plan Fund was either insured collateralized with securities held by the pledging financial institutions, or their trust departments or agents, but not in the County's name.

**NOTE 3 LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term obligations of the County for the year ended December 31, 2006:

	<b>Balance at January 1, 2006</b>	<b>Additions</b>	<b>Retirement s</b>	<b>Balance at December 31, 2006</b>	<b>Amount due within one year</b>
Accrued vacation and other compensation	\$ 9,836,722	\$ 803,212		\$ 10,639,934	
Accrued worker's compensation	4,102,861	2,324,878	\$ (1,522,487)	4,905,252	
General obligation bonds payable	120,625,000		(8,775,000)	111,850,000	\$ 9,050,000
Unamortized bond premium	848,896		(70,741)	778,155	70,741
	<u>\$ 135,413,479</u>	<u>\$ 3,128,090</u>	<u>\$ (10,368,228)</u>	<u>\$ 128,173,341</u>	<u>\$ 9,120,741</u>

**General Obligation Bonds Payable**

The following is a summary of general obligation bonds payable of the County for the year ended December 31, 2006:

\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$4,415,000 to \$12,150,000 through November 15, 2016, interest rates vary from 4.50% to 5.00% \$ 77,855,000

\$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% 33,995,000

\$ 111,850,000

The annual requirements to amortize all general obligation bonds payable as of December 31, 2006 are as follows:

	<u>Governmental Activities</u>		<u>Internal Service Fund</u>		<u>Total Debt Service</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$8,783,875	\$3,995,474	\$266,125	\$1,133,523	\$9,050,000	\$5,128,997	\$14,178,997
2008	9,154,520	3,648,981	255,480	1,120,217	9,410,000	4,769,198	14,179,198
2009	9,515,165	3,309,477	244,835	1,108,720	9,760,000	4,418,197	14,178,197
2010	9,936,455	2,921,656	223,545	1,096,479	10,160,000	4,018,135	14,178,135
2011	9,709,462	2,424,834	955,538	1,085,301	10,665,000	3,510,135	14,175,135
2012-2016	40,809,512	6,109,528	20,750,488	3,213,697	61,560,000	9,323,225	70,883,225
2017	1,245,000	51,045			1,245,000	51,045	1,296,045
	<u>\$89,153,989</u>	<u>\$22,460,995</u>	<u>\$22,696,011</u>	<u>\$8,757,937</u>	<u>\$111,850,000</u>	<u>\$31,218,932</u>	<u>\$143,068,932</u>

**NOTE 4 INTERFUND TRANSFERS**

Certain interfund transfers are executed as a result of the General Fund’s requirement to match a portion of another fund’s expenses or expenditures. In addition, the General Fund receives certain reimbursements from other funds. Interfund transfers to and transfers from of each individual fund for the year ended December 31, 2006 are as follows:

**Transfer In:**

	General Fund	Children and Youth Fund	Mental Retardation Fund	Other Governmenta l Funds	Total
<b><u>Transfer Out:</u></b>					
General Fund		\$3,692,542	\$ 438,444	\$ 28,710,412	\$32,841,398
Health Choices Fund				234,195	\$ 234,195
Children and Youth Fund	\$ 54,195			461,879	\$ 516,074
Mental Retardation Fund				121,450	\$ 121,450
Other Governmental Funds	5,656,649		130,000		\$ 5,786,649
Internal Service Fund	44,144			165,589	\$ 209,733
	<u>\$ 5,754,988</u>	<u>\$3,692,542</u>	<u>\$ 568,444</u>	<u>\$ 29,693,525</u>	

## NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

<b>Governmental Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$10,520,870	\$832,357		\$11,353,227
Capital assets, being depreciated:				
Buildings and improvements	191,864,425	7,552,247	(\$3,622)	199,413,050
Machinery and equipment	40,336,709	4,093,176	(85,739)	44,344,146
Furniture and fixtures	3,770,413	248,773		4,019,186
Easements	9,246,742	612,821		9,859,563
Infrastructure	6,970,304	1,591,942		8,562,246
Total capital assets, being depreciated	<u>252,188,593</u>	<u>14,098,959</u>	<u>(89,361)</u>	<u>266,198,191</u>
Total capital assets, historical cost	<u>262,709,463</u>	<u>14,931,316</u>	<u>(89,361)</u>	<u>277,551,418</u>
Less accumulated depreciation for:				
Buildings and improvements	(75,568,448)	(5,040,890)	245	(80,609,093)
Machinery and equipment	(32,900,887)	(2,683,825)	81,730	(35,502,982)
Furniture and fixtures	(2,736,048)	(268,900)		(3,004,948)
Easements	(1,318,970)	(238,829)		(1,557,799)
Infrastructure	(1,307,365)	(194,510)		(1,501,875)
Total accumulated depreciation	<u>(113,831,718)</u>	<u>(8,426,954)</u>	<u>81,975</u>	<u>(122,176,697)</u>
Total capital assets, net of accumulated depreciation	<u>\$148,877,745</u>	<u>\$6,504,362</u>	<u>(\$7,386)</u>	<u>\$155,374,721</u>
<b>Business-type Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$236,533			\$236,533
Capital assets, being depreciated:				
Buildings and improvements	5,405,466	\$56,000		5,461,466
Machinery and equipment	80,727			80,727
Furniture and fixtures	20,482			20,482
Total capital assets, being depreciated	<u>5,506,675</u>	<u>56,000</u>	<u>-</u>	<u>5,562,675</u>
Total capital assets, historical cost	<u>5,743,208</u>	<u>56,000</u>	<u>-</u>	<u>5,799,208</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,353,957)	(\$148,417)		(4,502,374)
Machinery and equipment	(77,878)	(2,849)		(80,727)
Furniture and fixtures	(20,482)			(20,482)
Total accumulated depreciation	<u>(4,452,317)</u>	<u>(151,266)</u>	<u>-</u>	<u>(4,603,583)</u>
Total capital assets, net of accumulated depreciation	<u>\$1,290,891</u>	<u>(\$95,266)</u>	<u>-</u>	<u>\$1,195,625</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 253,450
Executive	192,234
Administration	3,169,537
Human services	26,734
General services	1,000,866
Nursing homes	1,366,009
Corrections	1,741,459
Department of law	226
Courts	592,667
Development	<u>83,772</u>
 Total depreciation expense-governmental activities	 <u>\$ 8,426,954</u>
 Total depreciation expense - business-type activities - enterprise funds	 <u>\$ 151,266</u>

#### **NOTE 6      EMPLOYEES' RETIREMENT FUND**

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

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

Contributions to the Plan made by the County and its employees are accumulated and transferred to 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 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, 2006. 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*	3.5% - 4.5%; .25% increments over 4 years
* 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 \$6,325,873, \$5,572,091, and \$3,926,297 for each of the fiscal years ended December 31, 2006, 2005, and 2004, respectively. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2006, 2005, and 2004.

**NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND**

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

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

As of January 1, 2006, there were 706 retired participants in the plan and 279 potential participants who are currently active, for a total of 985 plan participants.

*Funding Policy:* The County currently funds the plan on a pay-as-you-go basis. The eligible retirees currently contribute nothing towards the plan's costs. The County is required to have calculated the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for 2006 was \$11,365,253 for the health and life insurance plan (\$11,226,914 for the health insurance and \$138,339 for the life insurance).

*Annual OPEB Cost:* For 2006, which is the first year the County adopted GASB Statement 45, the County's other postemployment benefits (OPEB) paid premiums were \$5,418,466, or \$5,946,787 less than the ARC. The difference between the paid premiums and the ARC of \$11,365,253 is recorded as a liability in the entity-wide financial statements (\$5,935,307 in governmental activities and \$11,480 in business-type activities). There was no interest on net OPEB obligation or adjustments to the ARC as this is the first year of implementation.

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage of Annual Required Contribution</u>	<u>Net OPEB Obligation</u>
12/31/06	\$ 11,365,253	47.68%	\$ 5,946,787

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions:* The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. In the January 1, 2006 actuarial valuation, the projected unit credit cost method was used for valuation purposes and the level dollar method over a period of 30 years was used for the amortization of the unfunded liability. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 10% initially, reduced by a decrements to an ultimate rate of 5% after 5 years.

## **NOTE 8            RISK MANAGEMENT**

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

### **General Liability and Property Damage**

The County is insured for general liability and property damage losses. The property damage and time element deductible is \$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 \$100,000. 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 POS (point of service), PPO (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 through Capital Blue Cross. This policy permits a \$10,000 annual major medical maximum and a \$50,000 lifetime major medical maximum for employees. Retirees, under age 65, are covered under a PPO plan. Retirees, age 65 and over, are covered by Capital Blue Cross Senior Plan where Medicare is primary and the Plan is secondary.

## Worker's Compensation

The County is self-insured for worker's compensation losses. Excessive losses are covered by commercial insurance with a \$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>
2005	\$ 3,943,921	\$ 985,000	\$ 470,221	\$ (246,896)	\$ (1,049,385)	\$ 4,102,861
2006	\$ 4,102,861	\$ 1,057,356	\$ 1,267,522	\$ (123,102)	\$ (1,399,385)	\$ 4,905,252

During 2006, there has not been a significant reduction in any insurance coverage and the amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

## NOTE 9 RESTRICTED ASSETS

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

<u>General Fund</u>	
Cash restricted for temporarily held balances that are due other parties.	\$1,062,888
<u>Health Choices Fund</u>	
Cash restricted for claims payable.	<u>4,974,000</u>
Total Restricted Assets	<u>\$6,036,888</u>

**NOTE 10      RESERVED FUND BALANCES/NET ASSETS**

The reservations of fund balance/net assets included in the financial statements represent portions of fund balance/net assets that are restricted for various purposes and are not available for the payment of other subsequent expenditures. The following are included in the financial statements:

Special Revenue Funds

Program expenditures

This reserve represents amounts reserved for the payment of specific program expenditures. \$ 39,754,581

Other Governmental Funds

Reserve for bond financed improvements

This reserve represents the restriction of funds set aside for capital projects. \$ 8,127,487

Fudiciary Fund

Held in trust for pension benefits

This reserve represents funds restricted to Employee Retirement Plan use for future payment of member benefits. \$ 351,804,793

**NOTE 11      LITIGATION**

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

**NOTE 12      AGREEMENT WITH LEHIGH COUNTY AUTHORITY**

Effective May 15, 2006, the County transferred full and complete operational and maintenance responsibilities of the wastewater pretreatment plant owned by the County to the Lehigh County Authority (“Authority”) in accordance with a lease / purchase agreement signed June 23, 2005. The County shall lease to the Authority the plant, plant site, and the County’s allocation in the City of Allentown Kline Island Treatment Plant for one dollar per year for a term of five years. At the end of the initial term and each subsequent five-year period, the Authority shall have the option to renew the lease for additional five-year terms, for a maximum of fifteen years total lease term, including the initial term. At any time during the initial seven years of the lease, the Authority shall have the option to take full ownership of the plant site and / or residual property free and clear of all liens, for one dollar.

**NOTE 13      SUBSEQUENT EVENT**

On March 15, 2007, the County issued and sold, or guaranteed, two series of bonds, and also issued and sold a general obligation note to finance the Lehigh County Minor League Ballpark. The total of the indebtedness is \$48,475,000. These consist of the following:

- (a) \$18,120,000 Lehigh County Federally Taxable Bonds, Series of 2007;
- (b) \$13,355,000 Lehigh County General Purpose Authority Guaranteed Authority Bonds, Series of 2007; and
- (c) \$17,000,000 Lehigh County General Obligation Note, Series of 2007.

COUNTY OF LEHIGH, PENNSYLVANIA  
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual  
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 87,995,285	\$ 88,432,985	\$ 89,585,948	\$ 1,152,963
Grants and reimbursements	59,623,430	83,787,245	63,739,955	(20,047,290)
Departmental earnings	21,976,625	19,938,016	20,711,745	773,729
Costs and fines	3,228,000	3,228,000	3,294,356	66,356
Investment income	2,283,715	2,706,712	4,387,557	1,680,845
Rents	154,501	154,502	189,499	34,997
Payments in lieu of taxes	183,200	183,200	193,784	10,584
Other revenues	351,471	334,471	455,689	121,218
Total revenues	<u>175,796,227</u>	<u>198,765,131</u>	<u>182,558,533</u>	<u>(16,206,598)</u>
<b>EXPENDITURES</b>				
Elected officials	14,733,447	14,726,229	14,214,974	511,255
County executive	2,629,589	2,643,485	2,534,816	108,669
Administration	18,562,373	19,305,934	18,236,385	1,069,549
Human services	520,795	535,060	471,589	63,471
General services	14,378,926	12,747,485	11,862,303	885,182
Nursing homes	50,578,735	50,806,619	49,124,783	1,681,836
Corrections	27,667,800	27,833,744	27,430,012	403,732
Department of law	1,284,034	1,250,371	1,208,005	42,366
Courts	22,768,459	23,147,416	22,750,162	397,254
Development	1,410,793	5,502,501	4,931,320	571,181
Total expenditures	<u>154,534,951</u>	<u>158,498,844</u>	<u>152,764,349</u>	<u>5,734,495</u>
Excess of revenues over (under) expenditures	<u>21,261,276</u>	<u>40,266,287</u>	<u>29,794,184</u>	<u>(10,472,103)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	31,690,406	32,522,919	5,754,988	(26,767,931)
Indirect cost allocation in	8,698,836	8,636,053	2,128,219	(6,507,834)
Operating transfers out	(57,708,373)	(100,155,877)	(32,841,398)	67,314,479
Indirect cost allocation out	(6,570,617)	(6,507,834)	0	6,507,834
Total other financing sources (uses)	<u>(23,889,748)</u>	<u>(65,504,739)</u>	<u>(24,958,191)</u>	<u>40,546,548</u>
Net change in fund balances	<u>(2,628,472)</u>	<u>(25,238,452)</u>	4,835,993	30,074,445
Fund balance, January 1	<u>53,582,500</u>	<u>54,914,444</u>	<u>59,219,249</u>	<u>4,304,805</u>
Fund balance, December 31	<u>\$ 50,954,028</u>	<u>\$ 29,675,992</u>	<u>\$ 64,055,242</u>	<u>\$ 34,379,250</u>

COUNTY OF LEHIGH, PENNSYLVANIA  
 General Fund  
 Adjustments to Reconcile GAAP Basis to Budgetary Basis  
 For the Year Ended December 31, 2006

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ 5,685,270	\$ 70,548,093
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2005	10,099,712	
Accrued as receivables (net of deferred revenues) at December 31, 2006 but not recognized in budget	(12,561,751)	(12,561,751)
Change in appreciation of investments	154,238	(1,401,169)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2005	(6,011,545)	
Accrued as liabilities at December 31, 2006 but not recognized in budget	<u>7,470,069</u>	<u>7,470,069</u>
Budgetary Basis	<u>\$ 4,835,993</u>	<u>\$ 64,055,242</u>

COUNTY OF LEHIGH, PENNSYLVANIA  
Health Choices Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual  
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Taxes				
Grants and reimbursements	\$ 51,374,582	\$ 51,374,582	\$ 55,492,903	\$ 4,118,321
Departmental earnings				
Costs and fines				
Investment income	1,200,000	1,200,000	2,050,238	850,238
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>52,574,582</u>	<u>52,574,582</u>	<u>57,543,141</u>	<u>4,968,559</u>
<b>EXPENDITURES</b>				
Elected officials				
County executive				
Administration				
Planning				
Human services	52,393,211	54,992,606	53,736,448	1,256,158
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>52,393,211</u>	<u>54,992,606</u>	<u>53,736,448</u>	<u>1,256,158</u>
Excess of revenues over (under) expenditures	<u>181,371</u>	<u>(2,418,024)</u>	<u>3,806,693</u>	<u>6,224,717</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	2	2	0	(2)
Indirect cost allocation in				
Operating transfers out	(410,884)	(636,049)	(234,195)	401,854
Indirect cost allocation out	(68,475)	(68,475)	(68,475)	0
Total other financing sources (uses)	<u>(479,357)</u>	<u>(704,522)</u>	<u>(302,670)</u>	<u>401,852</u>
Net change in fund balances	<u>(297,986)</u>	<u>(3,122,546)</u>	3,504,023	6,626,569
Fund balance, January 1	<u>30,000,000</u>	<u>35,165,534</u>	<u>34,647,822</u>	<u>(517,712)</u>
Fund balance, December 31	<u>\$ 29,702,014</u>	<u>\$ 32,042,988</u>	<u>\$ 38,151,845</u>	<u>\$ 6,108,857</u>

COUNTY OF LEHIGH, PENNSYLVANIA  
 Health Choices Fund  
 Adjustments to Reconcile GAAP Basis to Budgetary Basis  
 For the Year Ended December 31, 2006

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 3,022,837	\$ 36,224,944
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2005	743,435	
Accrued as receivables (net of deferred revenues) at December 31, 2006 but not recognized in budget	(4,920)	(4,920)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2005	(2,189,150)	
Accrued as liabilities at December 31, 2006 but not recognized in budget	1,931,821	1,931,821
Budgetary Basis	\$ 3,504,023	\$ 38,151,845

COUNTY OF LEHIGH, PENNSYLVANIA  
 Children and Youth Fund  
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual  
 For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>REVENUES</b>				
Taxes				
Grants and reimbursements	\$ 24,820,969	\$ 24,820,969	\$ 20,727,151	\$ (4,093,818)
Departmental earnings	2,001	2,001	2,208	207
Costs and fines				
Investment income	20,001	20,001	36,891	16,890
Rents				
Payments in lieu of taxes				
Other revenues	500	500	576	76
Total revenues	<u>24,843,471</u>	<u>24,843,471</u>	<u>20,766,826</u>	<u>(4,076,645)</u>
<b>EXPENDITURES</b>				
Elected officials				
County executive				
Administration				
Planning				
Human services	27,474,901	27,609,959	25,963,377	1,646,582
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>27,474,901</u>	<u>27,609,959</u>	<u>25,963,377</u>	<u>1,646,582</u>
Excess of revenues over (under) expenditures	<u>(2,631,430)</u>	<u>(2,766,488)</u>	<u>(5,196,551)</u>	<u>(2,430,063)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	3,942,542	3,942,542	3,692,542	(250,000)
Indirect cost allocation in				
Operating transfers out	(521,593)	(534,450)	(516,074)	18,376
Indirect cost allocation out	(650,737)	(650,737)	(650,737)	0
Total other financing sources (uses)	<u>2,770,212</u>	<u>2,757,355</u>	<u>2,525,731</u>	<u>(231,624)</u>
Net change in fund balances	138,782	(9,133)	(2,670,820)	(2,661,687)
Fund balance, January 1	0	9,133	3,470,754	3,461,621
Fund balance, December 31	<u>\$ 138,782</u>	<u>\$ 0</u>	<u>\$ 799,934</u>	<u>\$ 799,934</u>



COUNTY OF LEHIGH, PENNSYLVANIA  
Mental Retardation Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual  
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
Grants and reimbursements	\$ 31,864,454	\$ 33,190,782	\$ 34,376,838	\$ 1,186,056
Departmental earnings	15,000	14,998	7,794	(7,204)
Costs and fines				
Investment income	90,000	90,000	336,047	246,047
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	31,969,454	33,295,780	34,720,679	1,424,899
<b>EXPENDITURES</b>				
Elected officials				
County executive				
Administration				
Planning				
Human services	32,294,065	33,682,162	32,497,316	1,184,846
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	32,294,065	33,682,162	32,497,316	1,184,846
Excess of revenues over (under) expenditures	(324,611)	(386,382)	2,223,363	2,609,745
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	728,444	858,444	568,444	(290,000)
Indirect cost allocation in				
Operating transfers out	(124,581)	(124,581)	(121,450)	3,131
Indirect cost allocation out	(220,353)	(220,353)	(220,353)	0
Total other financing sources (uses)	383,510	513,510	226,641	(286,869)
Net change in fund balances	58,899	127,128	2,450,004	2,322,876
Fund balance, January 1	3,500,000	2,252,872	2,367,629	114,757
Fund balance, December 31	\$ 3,558,899	\$ 2,380,000	\$ 4,817,633	\$ 2,437,633

COUNTY OF LEHIGH, PENNSYLVANIA  
Mental Retardation Fund  
Adjustments to Reconcile GAAP Basis to Budgetary Basis  
For the Year Ended December 31, 2006

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 0	\$ 0
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables at December 31, 2005	1,404,445	
Accrued as receivables at December 31, 2006 but not recognized in budget	(403,769)	(403,769)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2005	(3,958,807)	
Paid in cash during the year but deferred at December 31, 2006	(174,858)	(174,858)
Accrued as deferred expenditures at December 31, 2005 but not recognized in budget	186,733	
Accrued as liabilities at December 31, 2006 but not recognized in budget	5,396,260	5,396,260
Budgetary Basis	\$ 2,450,004	\$ 4,817,633