

*County of Lehigh,
Pennsylvania*

December 31, 2007

*Financial Statements
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2007

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
County of Lehigh
Allentown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of COUNTY OF LEHIGH as of and for the year ended December 31, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable, 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. 48, "Sales and Pledges of Receivables and Future Reserves and Intra-Entity Transfers of Assets and Future Revenues".

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Board of Commissioners
County of Lehigh
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In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2008, on our consideration of the COUNTY OF LEHIGH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 44 through 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Allentown, Pennsylvania
June 25, 2008

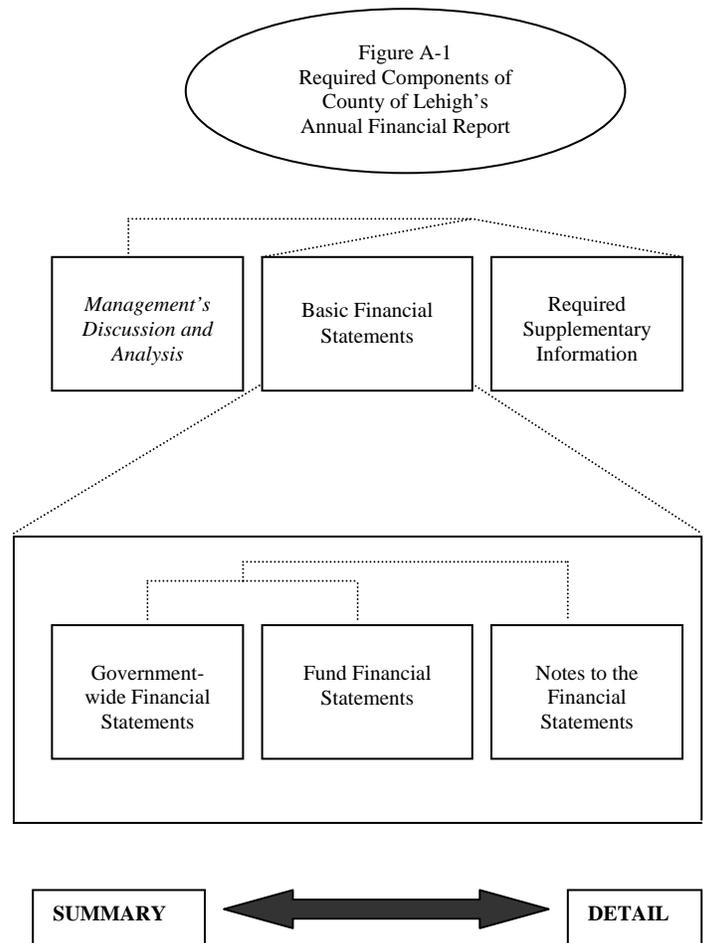
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007. 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 \$177 million at the close of the 2007 fiscal year. The following is a condensed summary of net assets for the years 2006 and 2007.

County of Lehigh's Net Assets

	Total Governmental Activities		Total Business - Type Activities		Total	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 168,692,506	\$ 290,089,309	\$ 928,517	\$ 834,524	\$ 169,621,023	\$ 290,923,833
Capital assets	<u>155,374,721</u>	<u>193,739,170</u>	<u>1,195,625</u>	<u>1,358,648</u>	<u>156,570,346</u>	<u>195,097,818</u>
Total Assets	324,067,227	483,828,479	2,124,142	2,193,172	326,191,369	486,021,651
General obligation bonds and notes payable	111,850,000	228,170,000			111,850,000	228,170,000
Other liabilities	<u>63,225,980</u>	<u>80,417,617</u>	<u>72,625</u>	<u>88,717</u>	<u>63,298,605</u>	<u>80,506,334</u>
Total liabilities	175,075,980	308,587,617	72,625	88,717	175,148,605	308,676,334
Net assets:						
Invested in capital assets, net of related debt	42,746,566	(39,821,145)	1,195,625	1,358,648	43,942,191	41,012,362
Restricted	47,882,068	143,415,778			47,882,068	63,940,919
Unrestricted	<u>58,362,613</u>	<u>71,646,229</u>	<u>855,892</u>	<u>745,807</u>	<u>59,218,505</u>	<u>72,392,036</u>
Total net assets	\$ 148,991,247	\$ 175,240,862	\$ 2,051,517	\$ 2,104,455	\$ 151,042,764	\$ 177,345,317

Current and other assets increased \$121.3 million largely due to an increase in cash and cash equivalents reserved for capital projects resulting from unspent bond fund borrowings that will be spent down as the various projects are completed. Total capital assets increased \$38.5 million due to the net of \$49.4 million in capital asset purchases less \$9.4 million in current year accumulated depreciation. See page 9 and Note 5 on page 36 for additional capital asset information.

General obligation bonds and notes increased \$116.3 million due to the issuance of two series of bonds and a general obligation note totaling \$48.5 million to finance the Lehigh County Minor League Ballpark (Coca-Cola Park), the issuance of a \$76.9 million bond to finance several projects including the completion of renovations and expansion of the Lehigh County Courthouse, less \$9 million of current year principal payments. Other liabilities increased \$17.2 million largely due to an increase in unfunded postemployment benefits of \$6.7 million, an increase in unamortized bond premium of \$4.3 million resulting from the \$76.9 million debt issuance referenced above, and an increase in unearned grant revenue of \$5.7 million. See Note 7 on page 39 for additional information concerning postemployment benefits other than pensions and Note 3 on Page 33 for additional information concerning the County's long-term debt.

Restricted net assets increased \$16.1 million largely due to an increase in funds reserved for debt service payments of \$17.9 million. Unrestricted net assets increased \$13.2 million largely due to an increase in funds totaling \$11 million in the Stabilization Fund and the Tax Relief Fund resulting from repayment from debt borrowings for advances made on capital construction.

Changes in Net Assets:

The following is a summary of the key elements comprising the changes in net assets for the years 2006 and 2007.

County of Lehigh's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Revenues:						
Program revenue:						
Charges for services	\$ 24,685,963	\$ 24,556,516	\$ 795,318	\$ 843,732	\$ 25,481,281	\$ 25,400,248
Operating grants and contributions	232,150,517	245,972,200			232,150,517	245,972,200
Capital grants and contributions		16,953,833				16,953,833
General revenues:						
Property taxes	89,502,011	90,797,347			89,502,011	90,797,347
Unrestricted investment earnings	7,925,439	9,681,637	46,581	52,385	7,972,020	9,734,022
Total revenues	<u>354,263,930</u>	<u>387,961,533</u>	<u>841,899</u>	<u>896,117</u>	<u>355,105,829</u>	<u>388,857,650</u>
Expenses:						
Elected officials	16,610,860	17,714,521			16,610,860	17,714,521
County executive	3,797,969	3,984,547			3,797,969	3,984,547
Administration	11,070,978	14,538,289			11,070,978	14,538,289
Human services	163,855,489	176,474,403	849,421	843,179	164,704,910	177,317,582
General services	15,530,752	10,547,349			15,530,752	10,547,349
Nursing homes	57,443,554	58,408,648			57,443,554	58,408,648
Corrections	31,476,816	33,079,366			31,476,816	33,079,366
Department of law	(32,763)	50,385			(32,763)	50,385
Courts	31,548,659	32,465,140			31,548,659	32,465,140
Development	8,285,104	7,750,411			8,285,104	7,750,411
Interest on long-term debt	4,260,813	6,698,859			4,260,813	6,698,859
Total expenses	<u>343,848,231</u>	<u>361,711,918</u>	<u>849,421</u>	<u>843,179</u>	<u>344,697,652</u>	<u>362,555,097</u>
Changes in net assets	<u>10,415,699</u>	<u>26,249,615</u>	<u>(7,522)</u>	<u>52,938</u>	<u>10,408,177</u>	<u>26,302,553</u>
Ending net assets	<u>\$148,991,247</u>	<u>\$175,240,862</u>	<u>\$ 2,051,517</u>	<u>\$ 2,104,455</u>	<u>\$151,042,764</u>	<u>\$177,345,317</u>

The County's total revenues increased \$33.8 million to \$388.9 million due to:

- An increase in operating grants and contributions of \$13.8 million largely due to the following increases in Human Services funds: \$2.2 million in Health Choices, \$3.9 million in Mental Retardation, and \$5 million in Area Agency on Aging. In addition, Nursing Home grants increased \$5.7 million, Executive grants decreased \$1.3 million, and Corrections grants decreased \$1.7 million.
- An increase in capital grants and contributions of \$17 million due to state funded grant reimbursements related to the construction the Lehigh County Minor League Ballpark (Coca-Cola Park).
- An increase in property tax revenue of \$1.3. Approximately 23% of total revenues are from property tax revenue.
- An increase in investment earnings of \$1.8 million due to favorable cash flows and interest rates.

The County's expenditures totaled \$362.6 million. The Human Services and Nursing Homes functions comprise 65% of the total expenditures. The Corrections and Courts functions comprise 18% of the total expenditures.

Financial Analysis of the Governmental Funds

The County's governmental funds combined fund balances were \$232.4 million, which is a \$111.9 million increase from the prior year. The primary reasons for this increase in fund balances were:

- The General Fund increased \$17.2 million largely due to an increase totaling \$11 million in the Stabilization Fund and the Tax Relief Fund resulting from repayment from debt borrowings for advances made on capital construction and \$6.2 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 \$2.7 million.
- Children and Youth Fund decreased \$1.2 million.
- Bond Fund 2007 increased \$68.8 and is restricted for future capital asset construction and purchase.
- The Other Governmental Funds increased \$24.3 million largely due bond fund proceeds held at year end that are restricted to baseball stadium construction.

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 \$9.3 million, or 6.0 percent. This increase is largely due to an increase in the Development expenditure budget from \$1.7 million to \$9.5 million which is the result of revisions of \$7.3 million for the state funded Redevelopment Assistance Capital Program (RACP). These projects were not originally budgeted and are funded by state grant revenues.

Final Budget vs. Actual

- \$.4 million favorable variance in property tax revenues.
- \$1.9 million favorable variance in grant revenues.
- \$.8 million favorable variance in investment income due to favorable cash flows and interest rates.
- \$1.6 million favorable variance in Administration expenditures and \$1.1 million favorable variance in Courts expenditures largely due to favorable healthcare experience.
- \$1.9 million favorable variance in Nursing Home expenditures due to favorable budgetary variations in workforce and improved operational procedures.
- Overall net favorable other financing sources / (uses) variance of \$11.3 million largely due to anticipated capital asset activity that did not occur. Such projects are not funded through debt borrowings. Funding of these projects is achieved through transfers from individual funds to the Other Capital Projects Fund.

Capital Assets

The following is a schedule of the County’s capital assets as of December 31, 2006 and December 31, 2007:

County of Lehigh’s Capital Assets

	Total Governmental Activities		Total Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Land	\$ 11,353,227	\$ 12,081,161	\$ 236,533	\$ 236,533	\$ 11,589,760	\$ 12,317,694
Buildings and improvements	118,803,957	152,653,531	959,092	1,122,115	119,763,049	153,775,646
Machinery and equipment	8,841,164	9,334,190			8,841,164	9,334,190
Furniture and Fixtures	1,014,238	1,991,368			1,014,238	1,991,368
Easements	8,301,764	10,198,211			8,301,764	10,198,211
Infrastructure	7,060,371	7,480,709			7,060,371	7,480,709
Total	\$ 155,374,721	\$ 193,739,170	\$ 1,195,625	\$ 1,358,648	\$ 156,570,346	\$ 195,097,818

Noteworthy capital asset purchases/projects that took place in 2007 were as follows:

- Purchased additional land easements for agricultural land preservation
- Continuation of the courthouse renovation expansion project
- Lehigh County Minor League Ballpark (Coca-Cola Park). The stadium, at a cost of \$49.4 million, has fixed seating for 7,000 people. An additional 3,000 fans can 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 is provided. The ballpark has been 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.
- Major bridge reconstruction
- Open space acquisition

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

Debt Administration

At year-end the County had \$211.2 million in general obligation bonds and \$17 million in a general obligation note outstanding. More detailed information about the County’s long-term liabilities is presented in Note 3 on Page 33.

The County’s general obligation debt has been rated as 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 \$538 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 5.1 percent versus 4.2 percent a year ago. This is the slightly higher than the state's rate of 5.0 percent and the national rate of 4.6 percent.
- Inflation in the Lehigh Valley (Lehigh and Northampton counties) is higher than the national consumer price index data due to increased food, shelter, and medical costs.
 - County inflation was 5.2 percent for year-end 2007.
 - The national rate was 2.8 percent.

These indicators were taken into account when adopting the general fund budget for 2008.

Property tax millage for 2008 is the same as 2007 - 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, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 237,497,347	\$ 834,115	\$ 238,331,462
Investments	2,749,399		2,749,399
Receivables:			
Grants	32,275,354		32,275,354
Real estate taxes	3,400,766		3,400,766
Interest and dividends	419,229		419,229
Mortgage	1,180,177		1,180,177
Other	2,611,510	409	2,611,919
Unamortized bond issuance costs	581,749		581,749
Other	4,004,888		4,004,888
Cash and cash equivalents - restricted	5,368,890		5,368,890
Capital assets, not being depreciated	12,081,161	236,533	12,317,694
Capital assets (net of accumulated depreciation)	181,658,009	1,122,115	182,780,124
Total assets	483,828,479	2,193,172	486,021,651
LIABILITIES			
Accounts payable	24,982,869	58,869	25,041,738
Deposits and agency amounts payable	5,368,890		5,368,890
Accrued payroll and payroll taxes	4,014,829	4,577	4,019,406
Due to other governmental units	866,776		866,776
Unearned revenues:			
Grants	9,402,787		9,402,787
Other	1,033,525		1,033,525
Current portions of long term liabilities:			
General obligation bonds payable	9,660,000		9,660,000
Unamortized bond premium	414,000		414,000
Noncurrent portions of long term liabilities:			
Accrued vacation and other compensation	12,010,456		12,010,456
Accrued worker's compensation	4,681,889		4,681,889
General obligation bonds payable	201,510,000		201,510,000
Note payable	17,000,000		17,000,000
Unamortized bond premium	4,976,315		4,976,315
Unfunded other postemployment benefits	12,665,281	25,271	12,690,552
Total liabilities	308,587,617	88,717	308,676,334
NET ASSETS			
Invested in capital assets (net of related debt)	39,653,714	1,358,648	41,012,362
Restricted for:			
Program expenditures	44,222,889		44,222,889
Debt service	17,901,703		17,901,703
Bond financed improvements	1,816,327		1,816,327
Unrestricted	71,646,229	745,807	72,392,036
Total net assets	\$ 175,240,862	\$ 2,104,455	\$ 177,345,317

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, 2007

Function	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:								
Elected officials	\$ 16,198,736	\$ 1,515,785	\$ 5,290,764	\$ 1,826,499		\$ (10,597,258)		\$ (10,597,258)
County executive	3,101,167	883,380	6,459	161,554		(3,816,534)		(3,816,534)
Administration	26,473,010	(11,934,721)	3,866,760	1,006,547		(9,664,982)		(9,664,982)
Human services	174,360,198	2,114,205	198,316	169,272,563		(7,003,524)		(7,003,524)
General services	11,221,499	(674,150)	426,355	5,592,822	\$ 16,953,833	12,425,661		12,425,661
Nursing homes	54,673,732	3,734,916	6,096,799	53,094,217		782,368		782,368
Corrections	31,002,255	2,077,111	3,149,445	123,334		(29,806,587)		(29,806,587)
Department of law	1,327,780	(1,277,395)	100,249			49,864		49,864
Courts	29,112,103	3,353,037	3,944,543	8,670,898		(19,849,699)		(19,849,699)
Development	7,605,257	145,154	1,476,826	6,223,766		(49,819)		(49,819)
Interest on long-term debt	6,698,859					(6,698,859)		(6,698,859)
Total governmental activities	\$ 361,774,596	\$ (62,678)	\$ 24,556,516	\$ 245,972,200	\$ 16,953,833	\$ (74,229,369)		\$ (74,229,369)
Business-type activities:								
Enterprise funds	\$ 780,501	\$ 62,678	\$ 843,732				\$ 553	\$ 553
Total primary government	\$ 362,555,097	\$ 0	\$ 25,400,248	\$ 245,972,200	\$ 16,953,833	\$ (74,229,369)	\$ 553	\$ (74,228,816)
			General revenues:					
			Taxes			90,797,347		90,797,347
			Unrestricted investment earnings			9,681,637	52,385	9,734,022
			Total general revenues			100,478,984	52,385	100,531,369
			Change in net assets			26,249,615	52,938	26,302,553
			Net assets, January 1			148,991,247	2,051,517	151,042,764
			Net assets, December 31			\$ 175,240,862	\$ 2,104,455	\$ 177,345,317

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

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2007

	<u>General</u>	<u>Health Choices</u>	<u>Children and Youth</u>	<u>Mental Retardation</u>	<u>Bond Fund 2007</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ 79,635,411	\$ 40,386,059	\$ 3,787,005	\$ 6,449,174	\$ 70,308,221	\$ 32,193,833	\$ 232,759,703
Investments	2,749,399						2,749,399
Receivables:							
Grants	10,129,220	112,712	4,182,151	306,807		17,544,464	32,275,354
Real estate taxes	3,400,766						3,400,766
Interest and dividends	20,823			108,333	103,672		232,828
Mortgage	1,180,177						1,180,177
Other	1,707,780		1,071	4,287		898,372	2,611,510
Other	52,236			174,858		3,777,794	4,004,888
Cash and cash equivalents - restricted	468,890	4,900,000					5,368,890
Total assets	<u>\$ 99,344,702</u>	<u>\$ 45,398,771</u>	<u>\$ 7,970,227</u>	<u>\$ 7,043,459</u>	<u>\$ 70,411,893</u>	<u>\$ 54,414,463</u>	<u>\$ 284,583,515</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	4,032,211	1,587,079	2,638,577	4,797,241	1,566,522	10,326,119	24,947,749
Deposits and agency amounts payable	468,890	4,900,000					5,368,890
Payroll and payroll taxes	3,308,657	10,919	266,457	74,019		334,012	3,994,064
Due to other governmental units	540,331					326,445	866,776
Unearned revenues:							
Grants	347,440		2,688,254	2,172,199		8,120,335	13,328,228
Real estate taxes	2,675,741						2,675,741
Other	193,510					840,015	1,033,525
Total liabilities	<u>11,566,780</u>	<u>6,497,998</u>	<u>5,593,288</u>	<u>7,043,459</u>	<u>1,566,522</u>	<u>19,946,926</u>	<u>52,214,973</u>
Fund balances:							
Reserved for:							
Program expenditures		38,900,773	2,376,939			2,945,177	44,222,889
Debt service						13,976,262	13,976,262
Bond financed improvements					68,845,371	12,445,815	81,291,186
Unreserved	87,777,922					5,100,283	92,878,205
Total fund balances	<u>87,777,922</u>	<u>38,900,773</u>	<u>2,376,939</u>	<u>0</u>	<u>68,845,371</u>	<u>34,467,537</u>	<u>232,368,542</u>
Total liabilities and fund balances	<u>\$ 99,344,702</u>	<u>\$ 45,398,771</u>	<u>\$ 7,970,227</u>	<u>\$ 7,043,459</u>	<u>\$ 70,411,893</u>	<u>\$ 54,414,463</u>	<u>\$ 284,583,515</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, 2007

Total fund balances for governmental funds \$ 232,368,542

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

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

Land	12,081,161	
Buildings and improvements, net of \$86,163,377 accumulated depreciation	152,653,531	
Machinery and equipment, net of \$38,276,264 accumulated depreciation	9,334,190	
Furniture and fixtures, net of \$3,296,491 accumulated depreciation	1,991,368	
Easements, net of \$1,831,414 accumulated depreciation	10,198,211	
Infrastructure, net of \$1,724,319 accumulated depreciation	<u>7,480,709</u>	

Total capital assets 193,739,170

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.

4,868,160

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.

581,749

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.

2,675,741

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

3,925,441

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, 2007 are:

Accrued vacation and other compensation	(12,010,456)	
Accrued worker's compensation	(4,681,889)	
Bonds and notes payable	(228,170,000)	
Unamortized bond premium	(5,390,315)	
Unfunded other postemployment benefits	<u>(12,665,281)</u>	<u>(262,917,941)</u>

Total net assets of governmental activities \$ 175,240,862

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, 2007

	General	Health Choices	Children and Youth	Mental Retardation	Bond Fund 2007	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 90,778,357						\$ 90,778,357
Grants and reimbursements	71,605,045	\$ 56,990,841	\$ 23,153,829	\$ 37,298,885		\$ 69,951,992	259,000,592
Departmental earnings	19,061,632		1,185	7,794		453,766	19,524,377
Judicial costs and fines	3,518,962					60,632	3,579,594
Investment income	4,729,195	2,443,950	59,645	447,206	\$ 135,708	1,865,933	9,681,637
Rents	351,702					125	351,827
Other	590,883		14			95,821	686,718
Total revenues	<u>190,635,776</u>	<u>59,434,791</u>	<u>23,214,673</u>	<u>37,753,885</u>	<u>135,708</u>	<u>72,428,269</u>	<u>383,603,102</u>
EXPENDITURES							
Elected officials	14,930,282				102,585	506,127	15,538,994
County executive	2,718,524						2,718,524
Administration	17,744,334				1,431,261	9,429,410	28,605,005
Human services	518,339	56,437,649	26,014,130	38,101,878		53,599,782	174,671,778
General services	10,793,904				161,760	38,510,891	49,466,555
Nursing homes	49,953,535					880,678	50,834,213
Corrections	28,604,553					403,669	29,008,222
Department of law	1,247,995						1,247,995
Courts	23,673,210					4,636,962	28,310,172
Development	7,239,392					280,268	7,519,660
Indirect cost allocation charges	(2,483,595)	96,200	725,340	239,438		1,359,939	(62,678)
Debt Service:							
Principal retirement						8,783,875	8,783,875
Interest						5,565,336	5,565,336
Total expenditures	<u>154,940,473</u>	<u>56,533,849</u>	<u>26,739,470</u>	<u>38,341,316</u>	<u>1,695,606</u>	<u>123,956,937</u>	<u>402,207,651</u>
Excess of revenues over (under) expenditures	<u>35,695,303</u>	<u>2,900,942</u>	<u>(3,524,797)</u>	<u>(587,431)</u>	<u>(1,559,898)</u>	<u>(51,528,668)</u>	<u>(18,604,549)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	19,817,478		2,942,542	728,444		35,507,435	58,995,899
Operating transfers out	(38,282,952)	(225,113)	(570,443)	(141,013)	(11,753,671)	(7,958,072)	(58,931,264)
Proceeds of general obligation bonds and notes - face					76,895,000	48,475,000	125,370,000
Proceeds of general obligation bonds and notes - premium / (discount)					5,263,940	(237,780)	5,026,160
Total other financing sources / (uses)	<u>(18,465,474)</u>	<u>(225,113)</u>	<u>2,372,099</u>	<u>587,431</u>	<u>70,405,269</u>	<u>75,786,583</u>	<u>130,460,795</u>
Net change in fund balances	17,229,829	2,675,829	(1,152,698)	0	68,845,371	24,257,915	111,856,246
Fund balances, January 1	70,548,093	36,224,944	3,529,637	0	0	10,209,622	120,512,296
Fund balances, December 31	<u>\$ 87,777,922</u>	<u>\$ 38,900,773</u>	<u>\$ 2,376,939</u>	<u>\$ 0</u>	<u>\$ 68,845,371</u>	<u>\$ 34,467,537</u>	<u>\$ 232,368,542</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, 2007

Net change in fund balances – total governmental funds \$ 111,856,246

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. 38,364,449

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt principal consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (120,935,638)

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

Accrued worker's compensation	223,363	
Accrued vacation and other compensation	(1,370,522)	
Unearned real estate tax revenue	18,990	
Unearned grant revenue	3,925,441	
Other postemployment benefits	<u>(6,729,974)</u>	
		(3,932,702)

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. 897,260

Change in net assets of governmental activities \$ 26,249,615

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, 2007

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 834,115	\$ 4,737,644
Interest receivable		186,401
Other receivables	409	
Total current assets	834,524	4,924,045
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,775,762	21,013,271
Equipment	80,727	1,019,877
Furniture and fixtures	20,482	1,441,539
Less accumulated depreciation	(4,754,856)	(7,464,299)
Total capital assets (net of accumulated depreciation)	1,358,648	16,010,388
TOTAL ASSETS	\$ 2,193,172	\$ 20,934,433
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 58,869	\$ 35,120
Accrued payroll and payroll taxes	4,577	20,765
Current portion of general obligation bonds payable		255,480
Total current liabilities	63,446	311,365
Noncurrent liabilities:		
General obligation bonds payable		22,174,406
Unfunded other postemployment benefits	25,271	
TOTAL LIABILITIES	88,717	22,485,771
NET ASSETS		
Invested in capital assets, net of related debt	1,358,648	(6,419,498)
Unrestricted	745,807	4,868,160
TOTAL NET ASSETS	\$ 2,104,455	\$ (1,551,338)

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, 2007

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 843,732	
Government Center revenues		\$ 3,159,460
Total operating revenues	<u>843,732</u>	<u>3,159,460</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	629,228	
Government Center		1,320,162
Depreciation	151,273	660,781
Indirect cost allocation charges	62,678	
Total operating expenses	<u>843,179</u>	<u>1,980,943</u>
OPERATING INCOME	<u>553</u>	<u>1,178,517</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	52,385	256,120
Interest expense		(1,133,523)
Total nonoperating revenues (expenses)	<u>52,385</u>	<u>(877,403)</u>
OTHER FINANCING USES		
Transfers out		(64,635)
Change in net assets	52,938	236,479
Total net assets (deficit), January 1	<u>2,051,517</u>	<u>(1,787,817)</u>
Total net assets (deficit), December 31	<u>\$ 2,104,455</u>	<u>\$ (1,551,338)</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, 2007

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 843,608	\$ 3,159,460
Payments to suppliers	(441,041)	(450,702)
Payments to employees	(136,530)	(668,138)
Payments of benefits on behalf of employees	(35,565)	(197,390)
Indirect cost allocation charges	(62,678)	
Net cash provided by operating activities	167,794	1,843,230
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds		(64,635)
Net cash used for noncapital financing activities		(64,635)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(314,296)	
Principal paid on capital debt		(266,125)
Interest paid on capital debt		(1,133,523)
Net cash used by capital and related financing activities	(314,296)	(1,399,648)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	52,385	69,719
Net cash provided by investing activities	52,385	69,719
Net increase in cash and cash equivalents	(94,117)	448,666
Cash and cash equivalents, January 1	928,232	4,288,978
Cash and cash equivalents, December 31	\$ 834,115	\$ 4,737,644
Reconciliation of operating income / (loss) to net cash provided by operating activities:		
Operating income	\$ 553	\$ 1,178,517
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	151,273	660,781
Change in assets and liabilities:		
Increase in other receivables	(124)	
Increase in accounts payable	1,372	936
Increase in payroll and payroll taxes payable	929	2,996
Increase in unfunded other postemployment benefits payable	13,791	
Net cash provided by operating activities	\$ 167,794	\$ 1,843,230

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, 2007

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 7,628,900	\$ 12,646,471
Investments, at fair value:		
United States government and municipal obligations	27,987,819	10,000
Corporate and foreign bonds	13,177,261	157,008
Collateralized mortgages	11,737	
Common stock	118,818,570	309,394
Mutual fund - corporate bonds	86,694,908	
Mutual fund - common stock	64,261,511	
Mutual fund - foreign stock	54,359,444	
Total investments	<u>365,311,250</u>	<u>476,402</u>
Receivables:		
Interest and dividends	724,872	78,478
Employee contributions	201,660	
Other		23,947
Total receivables	<u>926,532</u>	<u>102,425</u>
Total assets	<u>\$ 373,866,682</u>	<u>\$ 13,225,298</u>
LIABILITIES		
Accounts payable	\$ 164,248	\$ 504,420
Deposits and agency amounts payable		8,857,850
Due to other governmental units		3,863,028
Withdrawals payable	59,592	
Pension benefits payable	605,596	
Due to broker	44,216	
Total liabilities	<u>\$ 873,652</u>	<u>\$ 13,225,298</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 372,993,030</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, 2007

	Employee Retirement Plan
ADDITIONS	
Contributions:	
Employee	\$ 5,587,930
Employer	4,979,055
Total contributions	10,566,985
Investment income:	
Interest and dividend income	6,511,923
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	529,164
Corporate and foreign bonds	393,371
Collateralized mortgages	709
Common stock	7,554,201
Mutual fund - corporate bonds	4,760,847
Mutual fund - common stock	3,210,511
Mutual fund - foreign stock	4,355,012
	20,803,815
Less investment expenses	(903,626)
Net investment income	26,412,112
Other additions	54
Total additions	36,979,151
DEDUCTIONS	
Employee contributions refunded	660,785
Retirement benefits paid	14,287,706
Death benefits paid	805,011
Administrative expense	37,412
Total deductions	15,790,914
Change in net assets	21,188,237
Net assets, January 1	351,804,793
Net assets, December 31	\$ 372,993,030

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, 2007

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 2007, 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 2007, the County provided \$349,780 in subsidies to this Authority. The County Executive appoints, and the County Board of Commissioners approves, one half of the governing board for each organization. These two organizations have been determined to be related organizations.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

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

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

The County's major Governmental Funds are General Fund, Health Choices Fund, Children and Youth Fund, Mental Retardation Fund, and Bond Fund 2007.

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

The 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.

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

Proprietary Funds

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

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

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

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

Enterprise Fund

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

Internal Service Fund

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

Fiduciary Funds

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

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

Cash and Cash Equivalents

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

Investments

The County accounts for its investments at fair value.

Real Estate Taxes

Substantially all real estate taxes are levied annually on April 1 with the face amount due by July 31. Unpaid taxes become delinquent on December 31 in the year of levy. Current year and delinquent tax payments are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenue as of December 31. The 2007 real estate taxes assessed equaled \$91,222,753 based on a total County valuation of \$8,899,780,850. Based on the 2007 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 2007 real estate taxes are as follows:

July 31, 2008	Notices of unpaid delinquent taxes must be mailed by the County.
August 31, 2009	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 9, 2009	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 9, 2009	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 Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the County, not restricted for any project or other purpose.

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. 48, "*Sales and Pledges of Receivables and Future Reserves and Intra-Entity Transfers of Assets and Future Revenues*". The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

The GASB has issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation*". The County is required to adopt Statement No. 49 for its calendar year 2008 financial statements.

The GASB also issued Statement No. 50, "*Pension Disclosures*". The County is required to adopt Statement No. 50 for its calendar year 2008 financial statements.

The GASB also issued Statement No. 51, "*Accounting and Financial Report for Intangible Assets*". The County is required to adopt Statement No. 51 for its calendar year 2010 financial statements.

The GASB also issued Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*". The County is required to adopt Statement No. 52 for its calendar year 2008 financial statements.

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

NOTE 2 DEPOSIT AND INVESTMENT RISK

As of December 31, 2007, 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	\$ 256,346,823	\$ 256,346,823			
U.S. government treasuries	2,759,399	718,612	\$ 2,040,787		
Corporate bonds	157,008	29,719	97,458	29,831	
Total	\$ 259,263,230	\$ 257,095,154	\$ 2,138,245	29,831	

As of December 31, 2007, 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	\$ 7,628,900	\$ 7,628,900			
U.S. government treasuries	3,919,058			\$ 3,510,789	\$ 408,269
U.S. government agencies	24,068,761			7,284,762	16,783,999
Corporate bonds	13,177,261	219,938	\$ 2,411,940	5,522,370	5,023,013
Total	\$ 48,793,980	\$ 7,848,838	\$ 2,411,940	\$ 16,317,921	\$ 22,215,281

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, proprietary, and agency funds investments of \$2,759,399 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, 2007, 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	20%
Corporate Bonds	A1	19%
Corporate Bonds	A2	7%
Corporate Bonds	A3	6%
Corporate Bonds	Aa1	12%
Corporate Bonds	Aa2	13%
Corporate Bonds	Aa3	2%
Corporate Bonds	Baa1	10%
Corporate Bonds	Baa2	7%
Corporate Bonds	Baa3	4%

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, 2007, the County's cash and restricted cash balances for its governmental funds, proprietary funds and agency funds were \$256,346,823 and its bank balances were \$265,914,704. 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, 2007:

	Balance at January 1, 2007	Additions	Retirement s	Balance at December 31, 2007	Amount due within one year
Accrued vacation and other compensation	\$ 10,639,934	\$ 1,370,522		\$ 12,010,456	
Accrued worker's compensation	4,905,252	1,245,699	\$ (1,469,062)	4,681,889	
General obligation bonds payable	111,850,000	108,370,000	(9,050,000)	211,170,000	\$ 9,660,000
Note payable		17,000,000		17,000,000	
Unamortized bond premium/discount	778,155	5,026,160	(414,000)	5,390,315	414,000
	<u>\$ 128,173,341</u>	<u>\$ 133,012,381</u>	<u>\$ (10,933,062)</u>	<u>\$ 250,252,660</u>	<u>\$ 10,074,000</u>

General Obligation Bonds and Notes Payable

The following is a summary of general obligation notes and bonds payable of the County for the year ended December 31, 2007:

\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$4,580,000 to \$12,150,000 through November 15, 2016, interest rates vary from 4.50% to 5.00%	\$ 73,440,000
\$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%	29,360,000
\$76,895,000 2007 General Obligation Bonds, serial bonds due in annual installments of \$5,000 to \$12,635,000 through November 15, 2022, interest rates vary from 4.00% to 5.00%	76,895,000
\$18,120,000 2007 Federally Taxable General Obligation Bonds, serial bonds due in annual installments of \$245,000 to \$1,215,000 through December 15, 2037, interest rates vary from 5.42% to 5.85%	18,120,000
\$13,355,000 2007 Guaranteed Authority Bonds, serial bonds due in annual installments of \$5,000 to \$1,585,000 through December 15, 2037, interest rates vary from 4.00% to 4.5%	<u>13,355,000</u>
	211,170,000
\$17,000,000 2007 General Obligation Note, due March 1, 2009, interest rate of 4.49%	<u>17,000,000</u>
	<u>\$ 228,170,000</u>

The annual requirements to amortize all general obligation bonds and notes payable as of December 31, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Internal Service Fund</u>		<u>Total Debt Service</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9,404,520	\$ 9,560,129	\$ 255,480	\$1,120,217	\$ 9,660,000	\$ 10,680,346	\$ 20,340,346
2009	26,785,165	9,145,859	244,835	1,108,720	27,030,000	10,254,579	37,284,579
2010	10,221,455	8,362,052	223,545	1,096,479	10,445,000	9,458,531	19,903,531
2011	10,009,462	7,850,282	955,538	1,085,301	10,965,000	8,935,583	19,900,583
2012	7,708,269	7,397,864	3,756,731	1,037,524	11,465,000	8,435,388	19,900,388
2013-2017	48,386,243	30,950,894	16,993,757	2,176,173	65,380,000	33,127,067	98,507,067
2018-2022	68,100,000	16,960,213			68,100,000	16,960,213	85,060,213
2023-2027	5,115,000	5,946,270			5,115,000	5,946,270	11,061,270
2028-2032	7,975,000	4,365,600			7,975,000	4,365,600	12,340,600
2033-2037	12,035,000	1,939,725			12,035,000	1,939,725	13,974,725
	<u>\$205,740,114</u>	<u>\$102,478,888</u>	<u>\$ 22,429,886</u>	<u>\$7,624,414</u>	<u>\$228,170,000</u>	<u>\$110,103,302</u>	<u>\$338,273,302</u>

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 consisting 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.

On December 15, 2007, the County issued \$76,895,000 of General Obligation Bonds at a net premium of \$5,263,940. Proceeds of the bonds provided funds for (1) completion of renovations and expansion of the Lehigh County Courthouse, (2) acquisition and renovation of the former Hamilton Financial Center building, (3) repair and rehabilitation of the Mickley Road Bridge and the Linden Street Bridge, (4) construction, renovation, and acquisition of approximately \$10,050,000 of additional capital projects, and (5) paying bond issuance costs.

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, 2007 are as follows:

	Transfer In:				
	General	Children	Mental	Other	
	Fund	and Youth	Retardation	Governmenta	
<u>Transfer Out:</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
General Fund		\$2,942,542	\$ 728,444	\$ 34,611,966	\$38,282,952
Health Choices Fund				225,113	\$ 225,113
Children and Youth Fund	\$ 58,335			512,108	\$ 570,443
Mental Retardation Fund				141,013	\$ 141,013
Bond Fund 2007	11,753,671				11,753,671
Other Governmental Funds	7,958,072				\$ 7,958,072
Internal Service Fund	47,400			17,235	\$ 64,635
	<u>\$19,817,478</u>	<u>\$2,942,542</u>	<u>\$ 728,444</u>	<u>\$ 35,507,435</u>	

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$11,353,227	\$727,934		\$12,081,161
Capital assets, being depreciated:				
Buildings and improvements	199,413,050	41,653,858	(\$2,250,000)	238,816,908
Machinery and equipment	44,344,146	3,386,402	(120,094)	47,610,454
Furniture and fixtures	4,019,186	1,268,673		5,287,859
Easements	9,859,563	2,170,062		12,029,625
Infrastructure	8,562,246	642,782		9,205,028
Total capital assets, being depreciated	<u>266,198,191</u>	<u>49,121,777</u>	<u>(2,370,094)</u>	<u>312,949,874</u>
Total capital assets, historical cost	<u>277,551,418</u>	<u>49,849,711</u>	<u>(2,370,094)</u>	<u>325,031,035</u>
Less accumulated depreciation for:				
Buildings and improvements	(80,609,093)	(5,582,409)	28,125	(86,163,377)
Machinery and equipment	(35,502,982)	(2,893,376)	120,094	(38,276,264)
Furniture and fixtures	(3,004,948)	(291,543)		(3,296,491)
Easements	(1,557,799)	(273,615)		(1,831,414)
Infrastructure	(1,501,875)	(222,444)		(1,724,319)
Total accumulated depreciation	<u>(122,176,697)</u>	<u>(9,263,387)</u>	<u>148,219</u>	<u>(131,291,865)</u>
Total capital assets, net of accumulated depreciation	<u>\$155,374,721</u>	<u>\$40,586,324</u>	<u>(\$2,221,875)</u>	<u>\$193,739,170</u>
Business-type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$236,533			\$236,533
Capital assets, being depreciated:				
Buildings and improvements	5,461,466	\$314,296		5,775,762
Machinery and equipment	80,727			80,727
Furniture and fixtures	20,482			20,482
Total capital assets, being depreciated	<u>5,562,675</u>	<u>314,296</u>	<u>-</u>	<u>5,876,971</u>
Total capital assets, historical cost	<u>5,799,208</u>	<u>314,296</u>	<u>-</u>	<u>6,113,504</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,502,374)	(\$151,273)		(4,653,647)
Machinery and equipment	(80,727)			(80,727)
Furniture and fixtures	(20,482)			(20,482)
Total accumulated depreciation	<u>(4,603,583)</u>	<u>(151,273)</u>	<u>-</u>	<u>(4,754,856)</u>
Total capital assets, net of accumulated depreciation	<u>\$1,195,625</u>	<u>\$163,023</u>	<u>-</u>	<u>\$1,358,648</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 302,464
Executive	396,354
Administration	2,941,722
Human services	14,771
General services	1,705,952
Nursing homes	1,367,030
Corrections	1,756,859
Department of law	226
Courts	694,237
Development	<u>83,772</u>
 Total depreciation expense-governmental activities	 <u>\$ 9,263,387</u>
 Total depreciation expense - business-type activities - enterprise funds	 <u>\$ 151,273</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., ING Clarion, Mellon Equity Associates LLP, Montag & Caldwell Incorporated, 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, 2007. 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 2 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 \$4,979,055, \$6,325,873, and \$5,572,091 for each of the fiscal years ended December 31, 2007, 2006, and 2005, respectively. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2007, 2006, and 2005.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND

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

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

As of December 31, 2007, there were 712 retired participants in the plan and 239 potential participants who are currently active, for a total of 951 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 2007 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 2007, the County's other postemployment benefits (OPEB) paid premiums were \$4,889,093, or \$6,476,160 less than the ARC. The difference between the paid premiums and the ARC of \$11,365,253 for 2007 is recorded as a liability in the entity-wide financial statements (\$6,462,369 in governmental activities and \$13,791 in business-type activities).

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/06	\$ 11,365,253	47.68%	\$ 5,946,787
12/31/07	\$ 11,365,253	43.02%	\$ 12,690,552

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.

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, 2007 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 one fixed-rate premium based health care plan for active employees, which is a PPO (preferred provider organizations). Retirees, under age 65, are covered under a PPO plan. Retirees, age 65 and over, are covered by Capital Blue Cross Senior Plan where Medicare is primary and the Plan is secondary.

Worker's Compensation

The County is self-insured for worker's compensation losses. Excessive losses are covered by commercial insurance with a \$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 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>
2006	\$ 4,102,861	\$ 1,057,356	\$ 1,267,522	\$ (123,102)	\$ (1,399,385)	\$ 4,905,252
2007	\$ 4,905,252	\$ 1,100,000	\$ 145,699	\$ (273,632)	\$ (1,195,430)	\$ 4,681,889

During 2007, 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.	\$468,890
<u>Health Choices Fund</u>	
Cash restricted for claims payable.	<u>4,900,000</u>
Total Restricted Assets	<u><u>\$5,368,890</u></u>

NOTE 10 RESERVED FUND BALANCES

The reservations of fund balances included in the financial statements represent portions of fund balances 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. \$ 44,222,889

Other Governmental Funds

Reserved for bond financed improvements

This reserve represents the restriction of funds set aside for capital projects. \$ 81,291,186

Reserved for debt service

This reserve represents the restriction of funds set aside for future debt service payments. \$ 13,976,262

Fudiciary Fund

Held in trust for pension benefits

This reserve represents funds restricted to Employee Retirement Plan use for future payment of member benefits. \$ 372,993,030

NOTE 11 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 12 CONSTRUCTION COMMITMENTS

The County has entered into a variety of construction contracts for the expansion of the courthouse and the construction of the Lehigh County Minor League Ballpark. These commitments totaled \$13,866,521 for the courthouse expansion and \$9,977,706 for the construction of the Ballpark at December 31, 2007.

NOTE 13 OPERATING LEASE

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

NOTE 14 LITIGATION

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

COUNTY OF LEHIGH, PENNSYLVANIA
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2007

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 90,486,630	\$ 90,510,281	\$ 90,923,022	\$ 412,741
Grants and reimbursements	59,773,983	70,380,009	72,270,923	1,890,914
Departmental earnings	18,360,612	18,943,730	18,823,846	(119,884)
Costs and fines	3,487,250	3,487,250	3,455,909	(31,341)
Investment income	4,149,430	4,470,358	5,320,159	849,801
Rents	149,502	227,710	350,041	122,331
Payments in lieu of taxes	198,200	202,900	186,768	(16,132)
Other revenues	399,319	554,323	418,653	(135,670)
Total revenues	<u>177,004,926</u>	<u>188,776,561</u>	<u>191,749,321</u>	<u>2,972,760</u>
EXPENDITURES				
Elected officials	15,859,394	15,784,559	14,861,448	923,111
County executive	2,939,797	2,895,973	2,711,541	184,432
Administration	18,726,942	18,917,930	17,287,741	1,630,189
Human services	536,924	566,627	512,213	54,414
General services	10,894,260	11,204,408	10,624,622	579,786
Nursing homes	52,218,684	51,581,456	49,671,494	1,909,962
Corrections	28,217,047	29,111,623	28,536,656	574,967
Department of law	1,289,698	1,285,995	1,246,707	39,288
Courts	23,736,435	24,627,341	23,501,098	1,126,243
Development	1,710,758	9,496,819	8,863,665	633,154
Total expenditures	<u>156,129,939</u>	<u>165,472,731</u>	<u>157,817,185</u>	<u>7,655,546</u>
Excess of revenues over (under) expenditures	<u>20,874,987</u>	<u>23,303,830</u>	<u>33,932,136</u>	<u>10,628,306</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	5,354,863	32,576,490	19,817,478	(12,759,012)
Indirect cost allocation in	9,243,538	9,243,538	2,483,595	(6,759,943)
Operating transfers out	(34,902,374)	(62,294,143)	(38,282,952)	24,011,191
Indirect cost allocation out	(6,759,939)	(6,759,939)	0	6,759,939
Total other financing sources (uses)	<u>(27,063,912)</u>	<u>(27,234,054)</u>	<u>(15,981,879)</u>	<u>11,252,175</u>
Net change in fund balances	<u>(6,188,925)</u>	<u>(3,930,224)</u>	17,950,257	21,880,481
Fund balance, January 1	<u>51,002,000</u>	<u>59,568,261</u>	<u>64,055,242</u>	<u>4,486,981</u>
Fund balance, December 31	<u>\$ 44,813,075</u>	<u>\$ 55,638,037</u>	<u>\$ 82,005,499</u>	<u>\$ 26,367,462</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 General Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2007

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ 17,229,829	\$ 87,777,922
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2006	12,561,751	
Accrued as receivables (net of deferred revenues) at December 31, 2007 but not recognized in budget	(11,537,778)	(11,537,778)
Change in appreciation of investments	89,658	(1,311,511)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2006	(7,470,069)	
Accrued as liabilities at December 31, 2007 but not recognized in budget	7,076,866	7,076,866
Budgetary Basis	<u>\$ 17,950,257</u>	<u>\$ 82,005,499</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, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 53,379,853	\$ 55,101,294	\$ 56,882,993	\$ 1,781,699
Departmental earnings				
Costs and fines				
Investment income	1,600,000	1,600,000	2,443,950	843,950
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>54,979,853</u>	<u>56,701,294</u>	<u>59,326,943</u>	<u>2,625,649</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	54,041,821	57,101,296	56,771,416	329,880
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>54,041,821</u>	<u>57,101,296</u>	<u>56,771,416</u>	<u>329,880</u>
Excess of revenues over (under) expenditures	<u>938,032</u>	<u>(400,002)</u>	<u>2,555,527</u>	<u>2,955,529</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(342,308)	(366,736)	(225,113)	141,623
Indirect cost allocation out	(96,201)	(96,201)	(96,200)	1
Total other financing sources (uses)	<u>(438,509)</u>	<u>(462,937)</u>	<u>(321,313)</u>	<u>141,624</u>
Net change in fund balances	499,523	(862,939)	2,234,214	3,097,153
Fund balance, January 1	42,000,000	37,988,983	38,151,845	162,862
Fund balance, December 31	<u>\$ 42,499,523</u>	<u>\$ 37,126,044</u>	<u>\$ 40,386,059</u>	<u>\$ 3,260,015</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Health Choices Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2007

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 2,675,829	\$ 38,900,773
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2006	4,920	
Accrued as receivables (net of deferred revenues) at December 31, 2007 but not recognized in budget	(112,760)	(112,760)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2006	(1,931,821)	
Accrued as liabilities at December 31, 2007 but not recognized in budget	1,598,046	1,598,046
Budgetary Basis	\$ 2,234,214	\$ 40,386,059

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, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 26,135,263	\$ 26,135,263	\$ 26,994,655	\$ 859,392
Departmental earnings	4,400	4,400	12,608	8,208
Costs and fines				
Investment income	30,001	30,001	59,645	29,644
Rents				
Payments in lieu of taxes				
Other revenues	1,000	1,000	1,405	405
Total revenues	<u>26,170,664</u>	<u>26,170,664</u>	<u>27,068,313</u>	<u>897,649</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	28,377,251	28,840,053	25,728,001	3,112,052
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>28,377,251</u>	<u>28,840,053</u>	<u>25,728,001</u>	<u>3,112,052</u>
Excess of revenues over (under) expenditures	<u>(2,206,587)</u>	<u>(2,669,389)</u>	<u>1,340,312</u>	<u>4,009,701</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,942,542	3,942,542	2,942,542	(1,000,000)
Indirect cost allocation in				
Operating transfers out	(577,036)	(578,119)	(570,443)	7,676
Indirect cost allocation out	(725,341)	(725,341)	(725,340)	1
Total other financing sources (uses)	<u>2,640,165</u>	<u>2,639,082</u>	<u>1,646,759</u>	<u>(992,323)</u>
Net change in fund balances	433,578	(30,307)	2,987,071	3,017,378
Fund balance, January 1	0	30,307	799,934	769,627
Fund balance, December 31	<u>\$ 433,578</u>	<u>\$ 0</u>	<u>\$ 3,787,005</u>	<u>\$ 3,787,005</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Children and Youth Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2007

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ (1,152,698)	\$ 2,376,939
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2006	5,348,528	
Accrued as receivables (net of deferred revenues) at December 31, 2007 but not recognized in budget	(1,494,968)	(1,494,968)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2006	(2,618,825)	
Accrued as liabilities at December 31, 2007 but not recognized in budget	2,905,034	2,905,034
Budgetary Basis	\$ 2,987,071	\$ 3,787,005

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, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 33,321,363	\$ 39,347,204	\$ 39,563,387	\$ 216,183
Departmental earnings	15,000	15,000	8,207	(6,793)
Costs and fines				
Investment income	120,000	119,999	338,873	218,874
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>33,456,363</u>	<u>39,482,203</u>	<u>39,910,467</u>	<u>428,264</u>
EXPENDITURES				
Elected officials				
County executive				
Administration				
Planning				
Human services	33,670,956	39,896,946	38,626,919	1,270,027
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Human resources				
Total expenditures	<u>33,670,956</u>	<u>39,896,946</u>	<u>38,626,919</u>	<u>1,270,027</u>
Excess of revenues over (under) expenditures	<u>(214,593)</u>	<u>(414,743)</u>	<u>1,283,548</u>	<u>1,698,291</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	728,445	728,445	728,444	(1)
Indirect cost allocation in				
Operating transfers out	(145,283)	(145,283)	(141,013)	4,270
Indirect cost allocation out	(239,438)	(239,438)	(239,438)	0
Total other financing sources (uses)	<u>343,724</u>	<u>343,724</u>	<u>347,993</u>	<u>4,269</u>
Net change in fund balances	129,131	(71,019)	1,631,541	1,702,560
Fund balance, January 1	<u>2,725,000</u>	<u>2,737,120</u>	<u>4,817,633</u>	<u>2,080,513</u>
Fund balance, December 31	<u>\$ 2,854,131</u>	<u>\$ 2,666,101</u>	<u>\$ 6,449,174</u>	<u>\$ 3,783,073</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Retardation Fund
Adjustments to Reconcile GAAP Basis to Budgetary Basis
For the Year Ended December 31, 2007

	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, 2006	403,769	
Accrued as receivables at December 31, 2007 but not recognized in budget	1,752,772	1,752,772
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2006	(5,396,260)	
Paid in cash during the year but deferred at December 31, 2007	(174,858)	(174,858)
Accrued as deferred expenditures at December 31, 2006 but not recognized in budget	174,858	
Accrued as liabilities at December 31, 2007 but not recognized in budget	4,871,260	4,871,260
Budgetary Basis	\$ 1,631,541	\$ 6,449,174