

*County of Lehigh,
Pennsylvania*

December 31, 2012

*Financial Statements
and Independent Auditors' Report*

County of Lehigh

Year Ended December 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Basic Financial Statements	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	13
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Net Position – Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds.....	19
Statement of Fiduciary Net Position – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Position.....	21
Notes to Financial Statements	
1 Summary of Significant Accounting Policies.....	22
2 Deposit and Investment Risk.....	31
3 Long-term Obligations.....	33
4 Interfund Transfers.....	35
5 Capital Assets.....	36
6 Employees' Retirement Fund.....	37
7 Postemployment Benefits Other Than Retirement Fund.....	39
8 Risk Management.....	41
9 Restricted Assets.....	42
10 Fund Balance / Net Position.....	43
11 Construction Commitments.....	44
12 Operating Lease.....	44
13 Stabilization Fund.....	44
14 Restatement of Fund Balance.....	45
15 Litigation.....	45
Required Supplemental Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Cash Basis) and Actual – General Fund.....	46
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Cash Basis) and Actual – Mental Health Fund.....	48
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Cash Basis) and Actual – Health Choices Fund.....	50
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Cash Basis) and Actual – Children and Youth Fund.....	52
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Cash Basis) and Actual – Cedarbrook Fund.....	54

Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S 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 the County of Lehigh as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County of Lehigh's basic financial statements as listed in of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

Board of Commissioners
County of Lehigh
Page 2

Adoption of New GASB's

As described in Note 1 to the financial statements, in 2012 the County of Lehigh adopted the provisions of Governmental Accounting Standard Board's Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," No. 60 "Accounting and Financial Reporting for Service Concession Arrangement," No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53."

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–10 and 46–55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Zelenkofske Axelrod LLC

ZELENKOFSCHE AXELROD LLC

Allentown, Pennsylvania
June 26, 2013

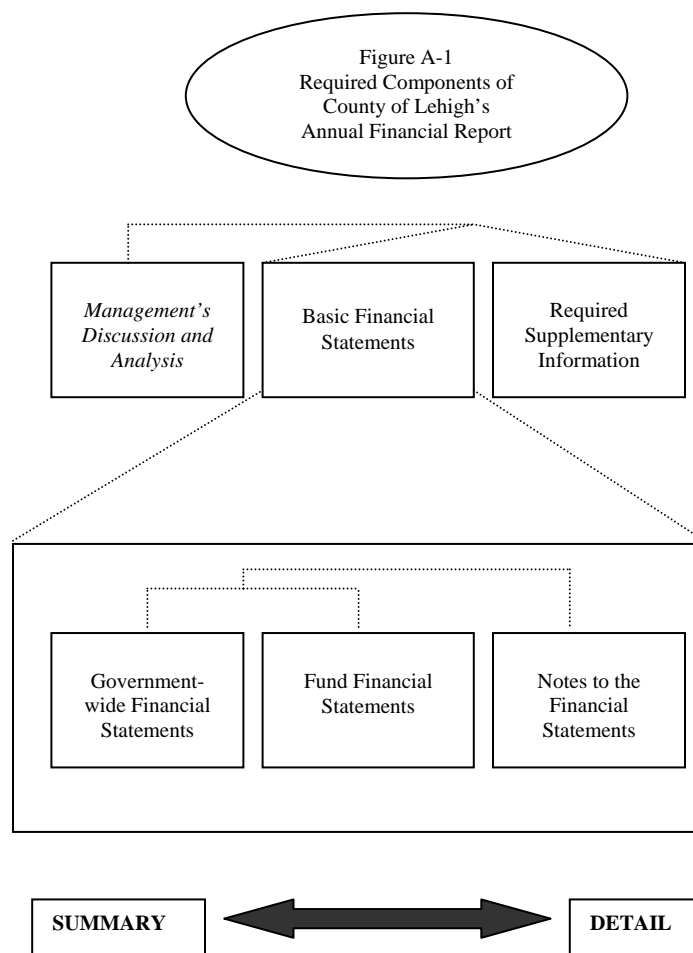
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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 position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of net position * Statement of revenues, expenses, and changes in net position * Statement of cash flow	* Statement of fiduciary net position * Statement of changes in fiduciary net position
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 position 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 position* and how it has changed. Net position - the difference between the County’s assets and liabilities including deferred inflows and outflows – is a way to measure the County’s financial health, *or position*. Over time, increases or decreases in the County’s net position is 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 position and a statement of changes in fiduciary net position. 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 \$145.6 million at the close of the 2012 fiscal year. The following is a condensed summary of net position for the years 2011 and 2012.

County of Lehigh's Net Position

	Total Governmental Activities		Total Business - Type Activities		Total	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and other assets	\$ 173,288,133	\$ 156,139,675	\$ 1,284,791	\$ 1,294,739	\$ 174,572,924	\$ 157,434,414
Capital assets	<u>245,414,480</u>	<u>244,328,773</u>	<u>1,050,742</u>	<u>902,019</u>	<u>246,465,222</u>	<u>245,230,792</u>
Total Assets	418,702,613	400,468,448	2,335,533	2,196,758	421,038,146	402,665,206
General obligation bonds and notes payable	177,671,805	167,270,533			177,671,805	167,270,533
Other liabilities	<u>96,547,792</u>	<u>89,734,982</u>	<u>103,678</u>	<u>106,535</u>	<u>96,651,470</u>	<u>89,841,517</u>
Total liabilities	274,219,597	257,005,515	103,678	106,535	274,323,275	257,112,050
Net position:						
Net investment in capital assets	72,641,423	81,782,408	1,050,742	902,019	73,692,165	82,684,427
Restricted	58,317,593	54,391,979			58,317,593	54,391,979
Unrestricted	<u>13,524,000</u>	<u>7,288,546</u>	<u>1,181,113</u>	<u>1,188,204</u>	<u>14,705,113</u>	<u>8,476,750</u>
Total net position	\$ 144,483,016	\$ 143,462,933	\$ 2,231,855	\$ 2,090,223	\$ 146,714,871	\$ 145,553,156

Current and other assets decreased \$17.1 million due to a decrease in cash balances of \$7.2 million and a decrease in grants receivable of \$9.9 million. Cash balances decreased \$3.8 million in the General Fund as tightened budgetary constraints resulted in reduced favorable budgetary variations, \$1.9 million in the Health Choices Fund due to the construction of a drug and alcohol detoxification and rehabilitation facility funded by state Health Choices grant funds that were carried over from prior years, and \$1.6 million in Bond Fund 2007 due to capital asset construction, such as continued renovations to the men's community correction center and the purchase of additional easements for agricultural land preservation. Grants receivable decreased \$1.7 million for the state funded Redevelopment Assistance Capital Program (RACP), \$2.4 million for medical assistance revenues due to a change in resident case mix and reduced occupancy at the County nursing homes, and \$3.1 million for Act 148 revenues resulting from a state waiver of the timing of these payments to the county level.

Capital assets decreased \$1.2 million due to the net of \$11.6 million in capital asset purchases less \$1 million in capital asset retirements and \$11.8 million in net current year accumulated depreciation. See Note 5 on page 36 for additional capital asset information.

General obligation bonds and notes payable decreased \$10.4 million due to current year principal payments. See Note 3 on Page 33 for additional information concerning the County's long-term debt.

Other liabilities decreased \$6.8 million largely due to the net of a decrease in accounts payable of \$3.9 million due to the timing of payments related to the state funded Redevelopment Assistance Capital Program (RACP), a decrease in unearned grant revenue of \$2.5 million due to the timing of receipt of state funding for the Mental Health program, a decrease in unamortized bond premium of \$1.4 million resulting from the annual amortization of this balance, and an increase in unfunded postemployment benefits other than pensions of \$1.3 million. See Note 7 on page 39 for additional information concerning postemployment benefits other than pensions.

Net investment in capital assets increased \$9 million due to the net of a decrease in net capital assets of \$1.2 million noted above and principal payments on general obligation bonds and notes payable totaling \$10.4 million. Restricted net position decreased \$3.9 million largely due to a decrease in Health Choices funds reserved for program expenditures resulting from the construction of a drug and alcohol facility, as noted above, and a decrease in Bond Fund 2007 due to capital asset construction, as noted above. Unrestricted net position decreased \$6.2 million largely due to the increase of \$1.3 million in postemployment benefits other than pensions and the decrease in general fund cash balances as noted above.

Changes in Net Position:

The following is a summary of the key elements comprising the changes in net position for the years 2011 and 2012.

County of Lehigh's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Revenues:						
Program revenue:						
Charges for services	\$ 30,030,374	\$ 30,107,563	\$ 986,540	\$ 1,010,060	\$ 31,016,914	\$ 31,117,623
Operating grants and contributions	240,529,709	220,846,779			240,529,709	220,846,779
General revenues:						
Property taxes	108,165,334	104,455,881			108,165,334	104,455,881
Unrestricted investment earnings	757,800	309,979	5,188	2,611	762,988	312,590
Transfers	84,042	108,966	(84,042)	(108,966)		
Total revenues	379,567,259	355,829,168	907,686	903,705	380,474,945	356,732,873
Expenses:						
Elected officials	21,366,434	22,579,046			21,366,434	22,579,046
County executive	4,556,096	4,430,756			4,556,096	4,430,756
Administration	11,801,076	15,091,467			11,801,076	15,091,467
Human services	163,086,146	143,377,207	883,289	1,045,337	163,969,435	144,422,544
General services	16,063,752	15,437,966			16,063,752	15,437,966
Nursing homes	67,165,222	66,887,041			67,165,222	66,887,041
Corrections	35,069,558	35,395,899			35,069,558	35,395,899
Department of law	185,211	21,065			185,211	21,065
Courts	36,660,795	35,717,770			36,660,795	35,717,770
Development	11,529,858	9,488,266			11,529,858	9,488,266
Interest on long-term debt	9,030,980	8,422,768			9,030,980	8,422,768
Total expenses	376,515,128	356,849,251	883,289	1,045,337	377,398,417	357,894,588
Changes in net position	3,052,131	(1,020,083)	24,397	(141,632)	3,076,528	(1,161,715)
Ending net position	\$144,483,016	\$143,462,933	\$ 2,231,855	\$ 2,090,223	\$146,714,871	\$145,553,156

The County's total revenues decreased \$23.7 million to \$356.7 million due to:

- A decrease in property tax revenue of \$3.7 million due to a one time expiring tax credit that was authorized for 2012 totaling \$4,370,000 for taxpayers whose taxes are paid in full by the end of the year. It was calculated on a pro rata basis across the classes of all taxable properties. This credit expired on December 31, 2012.

- A decrease in operating grants and contributions of \$19.7 million due to a decrease in the General Fund of \$5.4 million resulting from a decrease in the state funded RACP of \$2.3 million and a decrease in ARRA grants of \$1 million, a decrease in the Area Agency on Aging Fund of \$11 million resulting from a change in the pass-through procedures for Title XX grants, and a decrease in the Intellectual Disabilities Fund of \$2.1 million due to the outsourcing of case management services.
- A decrease in investment earnings of \$.5 million.

The County's expenditures totaled \$357.9 million. The Human Services and Nursing Homes functions comprise 59% of the total expenditures. The Corrections and Courts functions comprise 20% of the total expenditures.

Financial Analysis of the Governmental Funds

The County's governmental funds combined fund balances were \$110.3 million, which is a \$11.5 million decrease from the prior year. The primary reasons for this decrease in fund balances were:

- The General Fund decreased \$3 million as tightened budgetary constraints resulted in reduced favorable budgetary variations.
- The Health Choices Fund decreased \$3 million largely due to the construction of a drug and alcohol detoxification and rehabilitation facility. This facility was funded by state Health Choices grant funds that were carried over from prior years.
- The Cedarbrook Fund decreased \$2.2 million largely due to a change in resident case mix and reduced occupancy.
- Bond Fund 2007 decreased \$1.4 million largely due to the purchase of additional easements for agricultural land preservation and the continuation of the renovation of the men's community correction center. Remaining funds are restricted for future capital asset construction and purchase.
- The Other Governmental Funds decreased \$2.1 million largely due to a decrease in the 911 Fund of \$1.4 million resulting from an upgrade to the communications center radio system and a decrease in the Liquid Fuels Fund of \$.8 million resulting from major bridge reconstruction.

General Fund Budgetary Highlights

Original vs. Final Budget

Differences between the original adopted budget and the final amended budget of revenues in the General Fund resulted in a net increase of \$8.9 million, or 7.1 percent. This increase is largely due to an increase in the Grants and Reimbursements budget from \$6.4 million to \$14.9 million which is the result of revisions for several RACP projects which were not originally budgeted and are funded by state grant revenues.

Differences between the original adopted budget and the final amended budget of expenditures in the General Fund resulted in a net increase of \$10.2 million, or 9 percent. This increase is largely due to an increase in the Development expenditure budget from \$.6 million to \$9.8 million which is the result of revisions for several RACP projects noted above.

Final Budget vs. Actual

- \$1.1 million favorable variance in tax revenues.
- \$1.2 million favorable variance in Administration expenditures largely due to favorable budgetary variations in personnel costs.

- \$1 million favorable variance in Corrections expenditures largely due to favorable budgetary variations in personnel costs as well as operational costs such as electricity and maintenance/repairs.
- \$1.2 million favorable variance in Courts expenditures largely due to favorable budgetary variations in juvenile institutional placement costs as well as operational costs such as electricity.
- Overall net favorable other financing sources / (uses) variance of \$4.2 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, 2011 and December 31, 2012:

County of Lehigh's Capital Assets

	Total Governmental Activities		Total Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Land	\$ 12,314,926	\$ 12,204,235	\$ 236,533	\$ 236,533	\$ 12,551,459	\$ 12,440,768
Buildings and improvements	185,707,928	182,292,362	661,943	539,439	186,369,871	182,831,801
Machinery and equipment	8,329,397	7,792,654	137,366	113,197	8,466,763	7,905,851
Furniture and Fixtures	3,219,630	2,843,615	14,900	12,850	3,234,530	2,856,465
Easements	18,784,250	19,502,326			18,784,250	19,502,326
Infrastructure	17,058,349	19,693,581			17,058,349	19,693,581
Total	\$ 245,414,480	\$ 244,328,773	\$ 1,050,742	\$ 902,019	\$ 246,465,222	\$ 245,230,792

Noteworthy capital asset purchases/projects that took place in 2012 were as follows:

- \$.6 million – Continued renovations to men's community correction center
- \$.7 million - Purchased additional easements for agricultural land preservation
- \$3.4 million - Major bridge reconstruction
- \$1.5 million – 911 center infrastructure upgrade
- \$2.7 million – Drug and alcohol detoxification and rehabilitation facility construction

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 \$158.9 million in general obligation bonds and \$8.4 million in general obligation notes 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 Aa1 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 \$533 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 Lehigh County was 8.4 percent compared to the state's rate of 7.9 percent and the national rate of 8.4 percent.
- Northeast region 2012 inflation was 1.8 percent.

These indicators were taken into account when adopting the general fund budget for 2013.

Properties in Lehigh County were reassessed in 2013 resulting in a tax millage adjustment from 11.90 mills in 2012 to 3.79 mills in 2013 comprised of a revenue neutral calculation less a \$3 million tax reduction. In addition, a one time expiring tax credit was authorized for 2013 totaling \$3,500,000 for taxpayers whose taxes are paid in full by the end of the year. It was calculated on a pro rata basis across the classes of all taxable properties. This credit will expire on December 31, 2013.

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 Position

December 31, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 126,721,402	\$ 1,293,786	\$ 128,015,188
Receivables:			
Grants	11,851,664		11,851,664
Real estate taxes	4,260,756		4,260,756
Other	2,234,194	953	2,235,147
Unamortized bond issuance costs	467,583		467,583
Other	3,394,962		3,394,962
Cash and cash equivalents - restricted	7,209,114		7,209,114
Capital assets, not being depreciated	31,706,561	236,533	31,943,094
Capital assets (net of accumulated depreciation)	212,622,212	665,486	213,287,698
Total assets	<u>400,468,448</u>	<u>2,196,758</u>	<u>402,665,206</u>
LIABILITIES			
Accounts payable	12,327,285	43,140	12,370,425
Deposits and agency amounts payable	7,209,114		7,209,114
Accrued payroll and payroll taxes	2,469,968	2,216	2,472,184
Due to other governmental units	127,350		127,350
Unearned grant revenues	12,563,074		12,563,074
Current portions of long term liabilities:			
General obligation bonds payable	12,225,000		12,225,000
Note payable	563,858		563,858
Unamortized bond premium	1,419,287		1,419,287
Noncurrent portions of long term liabilities:			
Accrued vacation and other compensation	15,468,217		15,468,217
Accrued worker's compensation	2,974,107		2,974,107
General obligation bonds payable	146,635,000		146,635,000
Note payable	7,846,675		7,846,675
Unamortized bond premium	5,537,308		5,537,308
Unfunded other postemployment benefits	29,639,272	61,179	29,700,451
Total liabilities	<u>257,005,515</u>	<u>106,535</u>	<u>257,112,050</u>
NET POSITION			
Net investment in capital assets	81,782,408	902,019	82,684,427
Restricted for:			
Program expenditures	48,398,453		48,398,453
Debt service	215,323		215,323
Bond financed improvements	5,778,203		5,778,203
Unrestricted	7,288,546	1,188,204	8,476,750
Total net position	<u>\$ 143,462,933</u>	<u>\$ 2,090,223</u>	<u>\$ 145,553,156</u>

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

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Activities
For the Year Ended December 31, 2012

Function	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Elected officials	\$ 20,277,384	\$ 2,301,662	\$ 5,993,155	\$ 2,302,786	\$ (14,283,105)		\$ (14,283,105)
County executive	3,547,972	882,784	1,924	14,733	(4,414,099)		(4,414,099)
Administration	27,961,897	(12,870,430)	6,808,886	1,941,182	(6,341,399)		(6,341,399)
Human services	140,933,132	2,444,075	166,003	138,514,968	(4,696,236)		(4,696,236)
General services	16,815,914	(1,377,948)	222,640	8,328,069	(6,887,257)		(6,887,257)
Nursing homes	62,831,886	4,055,155	6,912,988	54,155,535	(5,818,518)		(5,818,518)
Corrections	33,968,074	1,427,825	3,296,966	1,620,254	(30,478,679)		(30,478,679)
Department of law	1,276,886	(1,255,821)	198,080		177,015		177,015
Courts	31,618,159	4,099,611	3,999,549	5,922,604	(25,795,617)		(25,795,617)
Development	9,266,459	221,807	2,507,372	8,046,648	1,065,754		1,065,754
Interest on long-term debt	8,422,768				(8,422,768)		(8,422,768)
Total governmental activities	<u>\$ 356,920,531</u>	<u>\$ (71,280)</u>	<u>\$ 30,107,563</u>	<u>\$ 220,846,779</u>	<u>\$ (105,894,909)</u>		<u>\$ (105,894,909)</u>
Business-type activities:							
Enterprise funds	<u>\$ 974,057</u>	<u>\$ 71,280</u>	<u>\$ 1,010,060</u>			<u>\$ (35,277)</u>	<u>\$ (35,277)</u>
Total primary government	<u>\$ 357,894,588</u>	<u>\$ 0</u>	<u>\$ 31,117,623</u>	<u>\$ 220,846,779</u>	<u>\$ (105,894,909)</u>	<u>\$ (35,277)</u>	<u>\$ (105,930,186)</u>
			General revenues:				
			Taxes		104,455,881		104,455,881
			Unrestricted investment earnings		309,979	2,611	312,590
			Transfers		108,966	(108,966)	0
			Total general revenues		<u>104,874,826</u>	<u>(106,355)</u>	<u>104,768,471</u>
			Change in net position		(1,020,083)	(141,632)	(1,161,715)
			Net position, January 1		<u>144,483,016</u>	<u>2,231,855</u>	<u>146,714,871</u>
			Net position, December 31		<u>\$ 143,462,933</u>	<u>\$ 2,090,223</u>	<u>\$ 145,553,156</u>

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

COUNTY OF LEHIGH, PENNSYLVANIA
Balance Sheet
Governmental Funds
December 31, 2012

	General	Mental Health	Health Choices	Children and Youth	Cedarbrook	Bond Fund 2007	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 41,205,328	\$ 5,158,452	\$ 29,560,904	\$ 5,395,937	\$ 1,135	\$ 13,551,812	\$ 24,442,144	\$ 119,315,712
Receivables:								
Grants	927,430	16,586	55,037	1,045,913	5,943,307		3,863,391	11,851,664
Real estate taxes	4,260,756							4,260,756
Other	1,619,230	109,985	39	1,097	595,023		357,463	2,682,837
Other	19,962						3,375,000	3,394,962
Cash and cash equivalents - restricted	1,497,159		5,500,000				211,955	7,209,114
Total assets	<u>\$ 49,529,865</u>	<u>\$ 5,285,023</u>	<u>\$ 35,115,980</u>	<u>\$ 6,442,947</u>	<u>\$ 6,539,465</u>	<u>\$ 13,551,812</u>	<u>\$ 32,249,953</u>	<u>\$ 148,715,045</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	1,842,184	1,016,071	1,389,868	1,675,390	1,962,808	283,867	4,575,314	12,745,502
Deposits and agency amounts payable	1,497,159		5,500,000				211,955	7,209,114
Payroll and payroll taxes	1,248,393	40,348	3,795	115,141	870,957		180,235	2,458,869
Due to other governmental units	43,747					83,603		127,350
Deferred revenues:								
Grants	334,095	4,228,604		4,652,416			3,347,959	12,563,074
Real estate taxes	3,342,666							3,342,666
Total liabilities	<u>8,308,244</u>	<u>5,285,023</u>	<u>6,893,663</u>	<u>6,442,947</u>	<u>2,833,765</u>	<u>367,470</u>	<u>8,315,463</u>	<u>38,446,575</u>
Fund balances:								
Restricted			28,222,317			13,184,342	17,102,741	58,509,400
Committed					3,705,700		6,831,749	10,537,449
Unassigned	41,221,621							41,221,621
Total fund balances	<u>41,221,621</u>	<u>0</u>	<u>28,222,317</u>	<u>0</u>	<u>3,705,700</u>	<u>13,184,342</u>	<u>23,934,490</u>	<u>110,268,470</u>
Total liabilities and fund balances	<u>\$ 49,529,865</u>	<u>\$ 5,285,023</u>	<u>\$ 35,115,980</u>	<u>\$ 6,442,947</u>	<u>\$ 6,539,465</u>	<u>\$ 13,551,812</u>	<u>\$ 32,249,953</u>	<u>\$ 148,715,045</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 Position
December 31, 2012

Total fund balances for governmental funds \$ 110,268,470

Total net position reported for governmental activities in the statement of net position 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	12,204,235
Buildings and improvements, net of \$97,741,884 accumulated depreciation	182,292,362
Machinery and equipment, net of \$41,959,447 accumulated depreciation	7,792,654
Furniture and fixtures, net of \$5,211,330 accumulated depreciation	2,843,615
Easements	19,502,326
Infrastructure, net of \$3,751,899 accumulated depreciation	<u>19,693,581</u>

Total capital assets 244,328,773

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 position.

7,396,929

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 position.

434,819

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.

3,342,666

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 position.

Balances at December 31, 2012 are:

Accrued vacation and other compensation	(15,468,217)
Accrued worker's compensation	(2,974,107)
Bonds and notes payable	(167,270,533)
Unamortized bond premium	(6,956,595)
Unfunded other postemployment benefits	<u>(29,639,272)</u> <u>(222,308,724)</u>

Total net position of governmental activities \$ 143,462,933

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, 2012

	<u>General</u>	<u>Mental Health</u>	<u>Health Choices</u>	<u>Children and Youth</u>	<u>Cedarbrook</u>	<u>Bond Fund 2007</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES								
Taxes	\$ 104,497,287							\$ 104,497,287
Grants and reimbursements	11,546,321	\$ 12,916,387	\$ 71,805,078	\$ 21,007,019	\$ 54,155,535		\$ 49,416,439	220,846,779
Departmental earnings	12,176,460	16,219			6,567,774		3,417,616	22,178,069
Judicial costs and fines	3,686,855						40,207	3,727,062
Investment income	143,432	12,916	69,662	4,674	875	\$ 28,165	50,255	309,979
Rents	332,703						1,290,126	1,622,829
Other	1,013,063			3,242	2,122		141,889	1,160,316
Total revenues	<u>133,396,121</u>	<u>12,945,522</u>	<u>71,874,740</u>	<u>21,014,935</u>	<u>60,726,306</u>	<u>28,165</u>	<u>54,356,532</u>	<u>354,342,321</u>
EXPENDITURES								
Current:								
Elected officials	18,739,319					108,448	1,317,709	20,165,476
County executive	3,466,773							3,466,773
Administration	20,133,714					133,862	4,134,145	24,401,721
Human services	553,837	12,590,895	70,613,472	23,047,023			37,467,551	144,272,778
General services	7,411,902					718,076	11,681,501	19,811,479
Nursing homes					60,843,471	10,129	700,664	61,554,264
Corrections	32,138,449					485,728	124,152	32,748,329
Department of law	1,350,072							1,350,072
Courts	25,923,479						5,009,967	30,933,446
Development	6,303,541						2,884,231	9,187,772
Indirect cost allocation charges	(6,625,231)	382,022	190,367	875,673	3,624,733		1,481,156	(71,280)
Debt Service:								
Principal retirement							7,545,500	7,545,500
Interest							7,582,691	7,582,691
Total expenditures	<u>109,395,855</u>	<u>12,972,917</u>	<u>70,803,839</u>	<u>23,922,696</u>	<u>64,468,204</u>	<u>1,456,243</u>	<u>79,929,267</u>	<u>362,949,021</u>
Excess of revenues over (under) expenditures	<u>24,000,266</u>	<u>(27,395)</u>	<u>1,070,901</u>	<u>(2,907,761)</u>	<u>(3,741,898)</u>	<u>(1,428,078)</u>	<u>(25,572,735)</u>	<u>(8,606,700)</u>
OTHER FINANCING SOURCES (USES)								
Operating transfers in	1,956,370	383,158		3,624,646	3,497,222		25,244,520	34,705,916
Operating transfers out	(28,978,294)	(355,763)	(3,989,043)	(545,963)	(1,935,096)		(1,747,561)	(37,551,720)
Total other financing sources / (uses)	<u>(27,021,924)</u>	<u>27,395</u>	<u>(3,989,043)</u>	<u>3,078,683</u>	<u>1,562,126</u>	<u>0</u>	<u>23,496,959</u>	<u>(2,845,804)</u>
Net change in fund balances	(3,021,658)	0	(2,918,142)	170,922	(2,179,772)	(1,428,078)	(2,075,776)	(11,452,504)
Fund balances, January 1, as restated (Note 14)	44,243,279	0	31,140,459	(170,922)	5,885,472	14,612,420	26,010,266	121,720,974
Fund balances, December 31	<u>\$ 41,221,621</u>	<u>\$ 0</u>	<u>\$ 28,222,317</u>	<u>\$ 0</u>	<u>\$ 3,705,700</u>	<u>\$ 13,184,342</u>	<u>\$ 23,934,490</u>	<u>\$ 110,268,470</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, 2012

Net change in fund balances – total governmental funds \$ (11,452,504)

The change in position 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. The net effect of the retirement of capital assets is to decrease net position. This is the amount by which net depreciation and retirements exceeded capital outlays in the current period. (1,085,707)

The issuance of long-term debt is an other financing source in the governmental funds, but increases the liability in the statement of net assets. The repayment of long-term debt principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 8,524,738

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

Accrued worker’s compensation	578,291	
Accrued vacation and other compensation	(415,555)	
Unearned real estate tax revenue	(41,406)	
Other postemployment benefits	<u>(1,323,952)</u>	
		(1,202,622)

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 \$754,777 depreciation which is included in the capital outlays adjustment above) is included in the governmental activities. 4,196,012

Change in net position of governmental activities \$ (1,020,083)

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

COUNTY OF LEHIGH, PENNSYLVANIA

Statement of Net Position

Proprietary Funds

December 31, 2012

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,293,786	\$ 7,405,690
Unamortized bond issuance costs		32,764
Other receivables	953	
Total current assets	<u>1,294,739</u>	<u>7,438,454</u>
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	5,974,815	23,354,186
Equipment	378,186	1,010,142
Furniture and fixtures	40,983	1,441,539
Less accumulated depreciation	<u>(5,728,498)</u>	<u>(10,881,927)</u>
Total capital assets (net of accumulated depreciation)	<u>902,019</u>	<u>14,923,940</u>
TOTAL ASSETS	<u>\$ 2,196,758</u>	<u>\$ 22,362,394</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 43,140	\$ 30,426
Accrued payroll and payroll taxes	2,216	11,099
Unamortized bond premium		377,771
Current portion of general obligation bonds payable		4,135,106
Total current liabilities	<u>45,356</u>	<u>4,554,402</u>
Noncurrent liabilities:		
General obligation bonds payable		14,187,781
Unamortized bond premium		1,133,314
Unfunded other postemployment benefits	<u>61,179</u>	
TOTAL LIABILITIES	<u>106,535</u>	<u>19,875,497</u>
NET POSITION		
Net investment in capital assets	902,019	(4,910,032)
Unrestricted	<u>1,188,204</u>	<u>7,396,929</u>
TOTAL NET POSITION	<u>\$ 2,090,223</u>	<u>\$ 2,486,897</u>

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 Position
Proprietary Funds
For the Year Ended December 31, 2012

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 1,010,060	
Government Center revenues		\$ 3,006,949
Total operating revenues	<u>1,010,060</u>	<u>3,006,949</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	757,472	
Government Center		1,776,264
Depreciation	216,585	754,777
Indirect cost allocation charges	71,280	
Total operating expenses	<u>1,045,337</u>	<u>2,531,041</u>
OPERATING INCOME/(LOSS)	<u>(35,277)</u>	<u>475,908</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	2,611	14,069
Amortization of bond premium		377,771
Amortization of bond issuance costs		(8,190)
Interest expense		(840,077)
Total nonoperating revenues	<u>2,611</u>	<u>(456,427)</u>
OTHER FINANCING USES		
Transfers in		3,200,000
Transfers out	(108,966)	(245,230)
	<u>(108,966)</u>	<u>2,954,770</u>
Change in net position	(141,632)	2,974,251
Total net position, January 1	<u>2,231,855</u>	<u>(487,354)</u>
Total net position, December 31	<u>\$ 2,090,223</u>	<u>\$ 2,486,897</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, 2012

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,009,408	\$ 3,006,949
Payments to suppliers	(511,808)	(800,322)
Payments to employees	(180,671)	(715,506)
Payments of benefits on behalf of employees	(62,136)	(257,300)
Indirect cost allocation charges	(71,280)	
Net cash provided by operating activities	183,513	1,233,821
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds		3,200,000
Transfers to other funds	(108,966)	(245,230)
Net cash provided by / (used) for noncapital financing activities	(108,966)	2,954,770
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(67,862)	
Transfer of net capital assets		142,495
Principal paid on capital debt		(2,531,283)
Interest paid on capital debt		(840,077)
Net cash used by capital and related financing activities	(67,862)	(3,228,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	2,611	14,069
Net cash provided by investing activities	2,611	14,069
Net increase in cash and cash equivalents	9,296	973,795
Cash and cash equivalents, January 1	1,284,490	6,431,895
Cash and cash equivalents, December 31	\$ 1,293,786	\$ 7,405,690
Reconciliation of operating income to net cash provided by operating activities:		
Operating income/(loss)	\$ (35,277)	\$ 475,908
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	216,585	754,777
Increase in other receivables	(652)	
Increase / (decrease) in accounts payable	(1,107)	877
Increase in payroll and payroll taxes payable	982	2,259
Increase in unfunded other postemployment benefits payable	2,982	
Net cash provided by operating activities	\$ 183,513	\$ 1,233,821

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

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Net Position
Fiduciary Funds
December 31, 2012

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 38,203,454	\$ 10,310,273
Investments, at fair value:		
United States government and municipal obligations	21,831,285	147,273
Corporate and foreign bonds	70,527,117	62,942
Common stock	113,107,956	192,574
Mutual fund - alternatives	37,337,288	
Mutual fund - corporate bonds	3,001,824	21,697
Mutual fund - common stock	49,468,517	
Mutual fund - foreign stock	57,472,947	
Total investments	<u>352,746,934</u>	<u>424,486</u>
Receivables:		
Interest and dividends	825,887	
Employee contributions	114,846	
Other		1,550,333
Total receivables	<u>940,733</u>	<u>1,550,333</u>
Total assets	<u>\$ 391,891,121</u>	<u>\$ 12,285,092</u>
LIABILITIES		
Accounts payable	\$ 233,220	\$ 585,116
Deposits and agency amounts payable		8,493,864
Due to other governmental units		3,206,112
Withdrawals payable	63,004	
Pension benefits payable	231,961	
Due to broker	933,887	
Total liabilities	<u>\$ 1,462,072</u>	<u>\$ 12,285,092</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ 390,429,049</u>	

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

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2012

	<u>Employee Retirement Plan</u>
ADDITIONS	
Contributions:	
Employee	\$ 6,452,031
Employer	11,076,512
Total contributions	<u>17,528,543</u>
Investment income:	
Interest and dividend income	9,628,130
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	(462,453)
Corporate and foreign bonds	2,395,281
Common stock	12,509,529
Mutual fund - alternatives	1,750,727
Mutual fund - corporate bonds	(11,040)
Mutual fund - common stock	4,076,723
Mutual fund - foreign stock	6,571,019
Partnerships - real estate	766,785
	<u>27,596,571</u>
Less investment expenses	(1,388,562)
Net investment income	<u>35,836,139</u>
Other additions	<u>26,771</u>
Total additions	53,391,453
DEDUCTIONS	
Employee contributions refunded	800,220
Retirement benefits paid	20,668,805
Death benefits paid	483,507
Administrative expense	40,124
Total deductions	<u>21,992,656</u>
Change in net position	31,398,797
Net position, January 1	<u>359,030,252</u>
Net position, December 31	<u><u>\$ 390,429,049</u></u>

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

COUNTY OF LEHIGH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 2012, the County paid \$425,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2012, the County provided \$407,500 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 position, 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 position. 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 position, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

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

The County's major Governmental Funds are General Fund, Mental Health Fund, Health Choices Fund, Children and Youth Fund, Cedarbrook 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 Mental Health Fund is used to account for the proceeds of specific revenue sources related to the provision of mental health services that are restricted to expenditures for those specified purposes.

The Health Choices Fund is used to account for the proceeds of specific revenue sources related to the provision of managed care services programs (including mental health and intellectual disabilities) 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 Cedarbrook Fund is used to account for the operation of the County nursing homes, including medical assistance and Medicare reimbursements.

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 2012 real estate taxes assessed equaled \$109,896,226 based on a total County valuation of \$9,234,976,975. Based on the 2012 levy of 11.90 mills, a property owner would pay \$11.90 per \$1,000 of assessed valuation. In addition, a one time expiring tax credit totaling \$4,370,000 was authorized for 2012 for taxpayers whose taxes are paid in full by the end of the year. This credit was calculated on a pro rata basis across the classes of all taxable properties. Tax payments received by year end resulted in the use of \$4,356,565 of the credit prior to expiration.

The dates relevant to the collection of delinquent 2012 real estate taxes are as follows:

July 31, 2013	Notices of unpaid delinquent taxes must be mailed by the County.
August 30, 2014	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 8, 2014	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 8, 2014	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 not recognized for easement assets since they have an indefinite life.

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
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 position. 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 and Deferred Revenues

Revenues that are received but not earned are recorded as unearned revenue in the government-wide and enterprise funds financial statements. In the County's governmental funds, deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred and unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

Net Position/Fund Balances

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. 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 Position* – 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 Position* - This category represents net position of the County, not restricted for any project or other purpose.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted fund balance – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners. These amounts cannot be used for any other purpose unless the Board of Commissioners remove or change the specified use by taking the same type of action that was employed when the funds were initially committed.
- Assigned fund balance – This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. The Board of Commissioners has the responsibility to approve or remove assigned fund balance to reflect the intended use of the resources.
- Unassigned fund balance – This classification represents amounts that are available for any purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and lastly unassigned fund balance.

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 requirements of GASB statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.” The adoption of this statement had no effect on previously reported amounts.

The County adopted the requirements of GASB statement No. 60 “Accounting and Financial Reporting for Service Concession Arrangement.” The adoption of this statement had no effect on previously reported amounts.

The County adopted the requirements of GASB statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” The adoption of this statement had no effect on previously reported amounts.

The County adopted the requirements of GASB statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The adoption of this statement resulted in the renaming of the residual measure of all other elements presented in a statement of financial position as “net position” rather than “net assets”.

The County adopted the requirements of GASB statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53.” The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principles

In November 2010, GASB issued Statement No. 61, “The Financial Reporting Entity: Omnibus.” The County is required to adopt Statement No.61 for its fiscal year 2013 financial statements.

In March 2012, the GASB issued Statement No. 65, “Items Previously Reported as Assets and Liabilities”. The County is required to adopt statement No. 65 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 66, “Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62”. The County is required to adopt statement No. 66 for its calendar year 2013 financial statements.

In June 2012, the GASB issued Statement No. 67, “Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25”. The County is required to adopt Statement No. 67 for its calendar year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”. The County is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations”. The County is required to adopt Statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees”. The County is required to adopt Statement No. 70 for its calendar year 2014 financial statements.

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

NOTE 2 DEPOSIT AND INVESTMENT RISK

As of December 31, 2012, the County had the following debt investments and maturities within its governmental, proprietary, and agency funds:

Investment Type	Investment Maturities (in Years)		
	Fair Value	1-5	6-10
U.S. government treasuries	55,151	\$ 37,531	\$ 17,620
U.S. government agencies	92,122	54,764	37,358
Corporate bonds	62,942	28,867	34,075
Total	\$ 210,215	\$ 121,162	\$ 89,053

As of December 31, 2012, 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
U.S. government treasuries	16,509,819	4,405,781	\$ 3,182,922	\$ 6,544,195	\$ 2,376,921
U.S. government agencies	5,321,466		2,416,041	555,061	2,350,364
Corporate bonds	70,527,117	5,057,500	14,914,172	18,996,046	31,559,399
Total	\$ 92,358,402	\$ 9,463,281	\$ 20,513,135	\$ 26,095,302	\$ 36,286,684

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 35% (with an allowable range of +/- 10%) of the portfolio. The investments may be adjusted to meet economic and/or investment market conditions.

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 20% 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, 2012, the County’s retirement investments had a credit rating as follows:

Investment Type	Credit Quality Rating	Percent of Investment Type
Cash Equivalent	AA+	100%
U.S. Government Treasuries	AA+	100%
U.S. Government Agencies	AA+	100%
Corporate Bonds	AAA	6%
Corporate Bonds	AA+	31%
Corporate Bonds	AA	4%
Corporate Bonds	AA-	4%
Corporate Bonds	A+	8%
Corporate Bonds	A	11%
Corporate Bonds	A-	19%
Corporate Bonds	BBB+	8%
Corporate Bonds	BBB	8%
Corporate Bonds	BBB-	1%

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, 2012, the County’s cash and restricted cash balances for its governmental funds, proprietary funds and agency funds were \$145,534,575 and its bank balances were \$150,940,682. 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, 2012:

	Balance at January 1, 2012	Additions	Retirement s	Balance at December 31, 2012	Amount due within one year
Accrued vacation and other compensation	\$ 15,052,662	\$ 415,555		\$ 15,468,217	
Accrued worker’s compensation	3,552,398	1,001,297	\$ (1,579,588)	2,974,107	
General obligation bonds payable	168,715,000		(9,855,000)	158,860,000	\$ 12,225,000
Note payable	8,956,805		(546,272)	8,410,533	563,858
Unamortized bond premium/discount	8,375,882		(1,419,287)	6,956,595	1,419,287
Other postemployment benefits	28,373,517	1,326,934		29,700,451	
	<u>\$ 233,026,264</u>	<u>\$ 2,743,786</u>	<u>\$ (13,400,147)</u>	<u>\$ 222,369,903</u>	<u>\$ 14,208,145</u>

Compensated absences and the liability for worker’s compensation self-insurance are liquidated by the General, Health Choices, Children and Youth, Mental Health, Cedarbrook, and certain other nonmajor funds.

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, 2012:

\$47,425,000 2004 General Obligation Bonds, serial bonds due in annual installments of \$135,000 to \$5,970,000 through November 15, 2017, interest rates vary from 3.7% to 4.10%	\$ 11,315,000
\$76,895,000 2007 General Obligation Bonds, serial bonds due in annual installments of \$5,000 to \$12,835,000 through November 15, 2022, interest rates vary from 4.00% to 5.00%	76,875,000
\$18,120,000 2007 Federally Taxable General Obligation Bonds, serial bonds due in annual installments of \$320,000 to \$1,215,000 through December 15, 2037, interest rates vary from 5.37% to 5.85%	16,745,000
\$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%	13,330,000
\$17,085,000 2010 General Obligation Bonds, serial bonds due in annual installments of \$1,900,000 to \$5,310,000 through November 15, 2015, interest rate of 5%	12,265,000
\$32,925,000 2011 General Obligation Bonds, serial bonds due in annual installments of \$6,705,000 to \$7,540,000 through November 15, 2016, interest rates vary from 3% to 5%	<u>28,330,000</u>
Total general obligation bonds payable	\$ 158,860,000
\$4,975,756 2009 General Obligation Note, due in quarterly installments of \$71,000 to \$109,000 through September 1, 2024, interest rate of 3.73%	\$ 4,172,000
\$4,768,538 2010 General Obligation Note, due in quarterly Installments of \$275,858 to \$381,744 through November 15, 2025, interest rates of 3.75% and 5.60%	<u>4,238,533</u>
Total notes payable	<u>8,410,533</u>
Total general obligation bonds and notes payable	<u>\$ 167,270,533</u>

The annual requirements to amortize all general obligation bonds and notes payable as of December 31, 2012 are as follows:

	<u>Governmental Activities</u>		<u>Internal Service Fund</u>		<u>Total Debt Service</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 8,653,752	\$ 7,178,530	\$ 4,135,106	\$ 768,438	\$ 12,788,858	\$ 7,946,968	\$ 20,735,826
2014	9,025,204	6,807,233	4,258,285	644,506	13,283,489	7,451,739	20,735,228
2015	9,445,292	6,391,766	4,426,876	475,077	13,872,168	6,866,843	20,739,011
2016	9,879,962	5,964,615	4,646,933	255,461	14,526,895	6,220,076	20,746,971
2017	14,091,723	5,537,375	84,948	24,881	14,176,671	5,562,256	19,738,927
2018-2022	71,178,792	17,512,389	461,970	86,228	71,640,762	17,598,617	89,239,379
2023-2027	6,662,921	6,021,910	308,769	18,276	6,971,690	6,040,186	13,011,876
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>\$148,947,646</u>	<u>\$61,719,143</u>	<u>\$ 18,322,887</u>	<u>\$ 2,272,867</u>	<u>\$167,270,533</u>	<u>\$63,992,012</u>	<u>\$231,262,545</u>

NOTE 4 INTERFUND TRANSFERS

Certain interfund transfers are executed as a result of the General Fund's requirement to match a portion of another fund's expenses or expenditures. In addition, the General Fund receives certain reimbursements from other funds. Interfund transfers to and transfers from of each individual fund for the year ended December 31, 2012 are as follows:

	<u>Transfer In:</u>						<u>Total</u>
	<u>General Fund</u>	<u>Mental Health</u>	<u>Children and Youth Fund</u>	<u>Cedarbrook Fund</u>	<u>Other Governmental Funds</u>	<u>Internal Service Fund</u>	
<u>Transfer Out:</u>							
General Fund		122,987	3,523,542	3,438,230	18,693,535	3,200,000	\$28,978,294
Mental Health Fund	103,950				251,813		\$ 355,763
Health Choices Fund	85,701	260,171			3,643,171		\$ 3,989,043
Children and Youth Fund	73,454				472,509		\$ 545,963
Cedarbrook Fund					1,935,096		\$ 1,935,096
Other Governmental Funds	1,587,465		101,104	58,992			\$ 1,747,561
Enterprise Fund					108,966		\$ 108,966
Internal Service Fund	105,800				139,430		\$ 245,230
	<u>\$ 1,956,370</u>	<u>\$ 383,158</u>	<u>\$3,624,646</u>	<u>\$ 3,497,222</u>	<u>\$ 25,244,520</u>	<u>\$ 3,200,000</u>	

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 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	\$ 12,314,926	518,564	(\$629,255)	\$ 12,204,235
Easements	<u>18,784,250</u>	<u>718,076</u>	<u>-</u>	<u>19,502,326</u>
Total capital assets, not being depreciated	31,099,176	1,236,640	(629,255)	31,706,561
Capital assets, being depreciated:				
Buildings and improvements	276,448,032	\$ 3,884,192	(297,978)	280,034,246
Machinery and equipment	47,019,222	2,844,935	\$ (112,056)	49,752,101
Furniture and fixtures	7,901,979	152,966	-	8,054,945
Infrastructure	<u>20,294,061</u>	<u>3,424,903</u>	<u>(273,484)</u>	<u>23,445,480</u>
Total capital assets, being depreciated	351,663,294	10,306,996	(683,518)	361,286,772
Total capital assets, historical cost	<u>382,762,470</u>	<u>11,543,636</u>	<u>(1,312,773)</u>	<u>392,993,333</u>
Less accumulated depreciation for:				
Buildings and improvements	(90,740,104)	(7,161,943)	160,163	(97,741,884)
Machinery and equipment	(38,689,825)	(3,381,678)	112,056	(41,959,447)
Furniture and fixtures	(4,682,349)	(528,981)	-	(5,211,330)
Infrastructure	<u>(3,235,712)</u>	<u>(543,679)</u>	<u>27,492</u>	<u>(3,751,899)</u>
Total accumulated depreciation	(137,347,990)	(11,616,281)	299,711	(148,664,560)
Total capital assets, net of accumulated depreciation	<u>\$ 245,414,480</u>	<u>\$ (72,645)</u>	<u>\$ (1,013,062)</u>	<u>\$ 244,328,773</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	5,939,065	\$ 35,750		5,974,815
Machinery and equipment	346,074	32,112		378,186
Furniture and fixtures	<u>40,983</u>	<u>-</u>	<u>-</u>	<u>40,983</u>
Total capital assets, being depreciated	6,326,122	67,862	-	6,393,984
Total capital assets, historical cost	<u>6,562,655</u>	<u>67,862</u>	<u>-</u>	<u>6,630,517</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,277,122)	(158,254)		(5,435,376)
Machinery and equipment	(208,708)	(56,281)		(264,989)
Furniture and fixtures	<u>(26,083)</u>	<u>(2,050)</u>	<u>-</u>	<u>(28,133)</u>
Total accumulated depreciation	(5,511,913)	(216,585)	-	(5,728,498)
Total capital assets, net of accumulated depreciation	<u>\$ 1,050,742</u>	<u>\$ (148,723)</u>	<u>-</u>	<u>\$ 902,019</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 285,817
Executive	28,366
Administration	3,179,733
Human services	49,395
General services	4,114,914
Nursing homes	1,633,795
Corrections	1,851,362
Department of law	114
Courts	389,337
Development	<u>83,448</u>
 Total depreciation expense-governmental activities	 <u><u>\$11,616,281</u></u>
 Total depreciation expense - business-type activities - enterprise funds	 <u><u>\$ 216,585</u></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 Wells Fargo Bank, the Plan's custodian. The Plan is administered by the Retirement Board of Trustees. The Plan's assets are invested with the following investment advisors based on recommendations from Cornerstone Advisor's Assets Management Inc., the Plan's consultant: Agincourt Capital Management, LLC, American Funds EuroPacific – MSCI EAFE Fund, CBRE Clarion Securities, LLC, C. S. McKee, LP, Eaton Vance – S&P Leveraged Loan Fund, Edgar Lomax Company, Emerald Advisers, Inc., Mondrian Investment Partners, Inc., Nuveen Preferred – S&P Preferred Stock Fund, PIMCO Commodity – Dow AIG Commodity Fund, Sterling Capital Management, LLC, Sustainable Growth Advisors, LP, The Philadelphia Trust Company, Vanguard – S&P 500 Fund, Vanguard – MSCI EAFE Fund, Vanguard SCV Index, and Vanguard ST Corporate Bond, 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, 2012. Significant actuarial assumptions used include:

Actuarial Cost Method	Entry Age
Asset Valuation Method	Act 44 Methodology
Actuarial Assumptions:	
Investment Rate of Return*	7.5%
Projected Salary Increases*	4%
* Includes Inflation at	3%

(The asset valuation assumption was modified for the 1/1/11 actuarial valuation. There are 14 years remaining on the amortization resulting from this change.)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	\$364,082,316	\$361,684,784	\$(2,397,532)	100.7%	\$98,169,076	(2.4)%
1/1/2009	351,739,670	386,231,423	34,491,753	91.1%	104,774,896	32.9%
1/1/2010	344,533,257	405,281,058	60,747,801	85.0%	108,008,635	56.2%
1/1/2011	363,022,473	430,640,974	67,618,501	84.3%	109,572,720	61.7%
1/1/2012	381,216,401	452,851,496	71,635,095	84.2%	109,197,576	65.6%

The annual pension costs were \$11,076,512, \$10,428,623, and \$9,632,648 for each of the fiscal years ended December 31, 2012, 2011, and 2010, respectively. The County has contributed 100% of the annual pension cost. The net pension obligations were \$0 for each of the fiscal years ended December 31, 2012, 2011, and 2010.

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, 2012, there were 697 retired participants in the plan and 146 potential participants who are currently active, for a total of 843 plan participants.

Funding Policy: The County currently funds the plan on a pay-as-you-go basis. The eligible retirees currently do not contribute 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 2012 was \$8,050,091 for the health and life insurance plan (\$7,917,573 for the health insurance and \$132,518 for the life insurance) using the implicit rate subsidy.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2007	0	164,506,389	164,506,189	0%	93,591,263	175.8%
1/1/2008	0	140,425,715	140,425,715	0%	98,169,076	143.0%
1/1/2009	0	141,698,640	141,698,640	0%	104,774,896	135.2%
1/1/2010	0	130,304,475	130,304,475	0%	108,008,635	120.6%
1/1/2011	0	130,792,914	130,792,914	0%	109,572,720	119.4%
1/1/2012	0	119,577,949	119,577,949	0%	109,179,576	109.5%

Development of net OPEB Obligation

(1) Year	(2) ARC	(3) Interest On Net OPEB Obligation**	(4) ARC Adjustment***	(5) Amortization Factor	(6) OPEB-Cost (2+3-4)	(7) Contribution	(8) Changes in Net OPEB Obligation (6-7)	(9) Net OPEB Obligation Balance* (BB+8)
2007	11,365,253	267,605	0	16.29	11,632,858	4,889,093	6,743,765	12,690,552
2008	9,722,391	571,075	779,039	16.29	9,514,427	4,995,290	4,519,137	17,209,689
2009	9,722,391	774,436	1,056,457	16.29	9,440,370	5,024,493	4,415,877	21,625,566
2010	8,843,831	973,150	1,327,536	16.29	8,489,445	4,741,273	3,748,172	25,373,738
2011	8,843,831	1,141,818	1,557,627	16.29	8,428,022	5,428,243	2,999,779	28,373,517
2012	8,050,091	1,276,808	1,741,775	16.29	7,585,124	6,258,190	1,326,934	29,700,451

* BB = Beginning balance for the year.

** Interest on the balance of the Net OPEB Obligation at the beginning of the year using the investment return rate assumed in determining ARC. The interest is an estimate of the investment earnings lost to the plan on any contributions that were not made (4.5% when applicable).

*** ARC adjustment is the previous year's balance of the Net OPEB Obligation divided by the amortization factor.

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/07	11,632,858	42.0%	12,690,552
12/31/08	9,514,427	52.5%	17,209,689
12/31/09	9,440,370	53.2%	21,625,566
12/31/10	8,489,445	55.8%	25,373,738
12/31/11	8,428,022	64.4%	28,373,517
12/31/12	7,585,124	82.5%	29,700,451

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Annual required contribution (ARC)	\$ 8,032,000	\$ 18,091	\$ 8,050,091
Interest on net OPEB Obligation	1,273,939	2,869	1,276,808
Adjustment to ARC	(1,737,861)	(3,914)	(1,741,775)
Annual OPEB Cost (Expense)	7,568,078	17,046	7,585,124
Contributions made	6,244,126	14,064	6,258,190
Increase to net OPEB obligation	1,323,952	2,982	1,326,934
Net OPEB obligation—beginning of year	28,315,320	58,197	28,373,517
Net OPEB obligation—end of year	\$ 29,639,272	\$ 61,179	\$ 29,700,451

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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. 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 6.2% initially, reduced by decrements to an ultimate rate of 3.8% 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 \$25,000 each occurrence during the policy term. General liability losses are covered in excess of \$100,000 applicable to each occurrence.

Healthcare

The County provides one self-insured 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 Highmark Blue Shield 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 \$600,000 maximum retention per accident or employee.

Reserve balances are based on the requirements of Government Accounting Standards Board Statement Number 30. The County records reported loss claims and claims incurred but not reported for worker's compensation based on estimates of independent actuaries. Such claims and estimates are not discounted. The following provides aggregate information for the current and prior year on worker's compensation liabilities, incurred claims and payments:

	<u>January 1</u>	<u>Change In Incurred Claims</u>		<u>Payments</u>		<u>December 31</u>
		<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	
2011	\$ 3,904,071	1,375,303	(68,407)	(473,969)	(1,184,600)	\$ 3,552,398
2012	\$ 3,552,398	939,324	61,973	(223,421)	(1,356,167)	\$ 2,974,107

During 2012, 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:

General Fund

Cash restricted for temporarily held balances that are due other parties. \$1,497,159

Health Choices Fund

Cash restricted for claims payable. 5,500,000

Other Governmental Funds

Cash restricted for temporarily held balances that are due to other parties. 211,955

Total Restricted Assets \$7,209,114

NOTE 10 FUND BALANCE / NET POSITION

The constraints on fund balance included in the governmental fund financial statements represent portions of fund balances that are restricted or committed for various purposes and are not available for the payment of other subsequent expenditures. The following restricted and committed fund balances are included in the governmental fund financial statements:

Health Choices Fund

Restricted fund balance

Amounts restricted for the payment of specific grant program expenditures. \$ 28,222,317

Cedarbrook Fund

Committed fund balance

Amounts committed for the payment of nursing home expenditures. \$ 3,705,700

Bond Fund 2007

Restricted fund balance

Amounts restricted for the payment of capital project expenditures. \$ 13,184,342

Other Governmental Funds

Restricted fund balance amounts for:

The payment of specific grant and fee program expenditures. \$ 11,820,527
The payment of capital project expenditures. 1,799,970
The required worker's compensation self-insurance reserve. 3,266,921
Debt service payments. 215,323
\$ 17,102,741

Committed fund balance amounts for:

The payment of specific program expenditures. \$ 4,007,095
The payment of capital project expenditures. 2,474,654
General insurance reserve. 350,000
\$ 6,831,749

Fiduciary Fund

Held in trust for pension benefits

Amounts restricted to Employee Retirement Plan use for future payment of member benefits. \$ 390,429,049

NOTE 11 CONSTRUCTION COMMITMENTS

The County has entered into a variety of construction commitments for bridge replacement and repair for the Lehigh Street Bridge, Coplay/Northampton Bridge, and Pine Street Bridge. These commitments totaled \$10,177,746, \$9,500,541 and \$1,032,245 at December 31, 2012, respectively.

In addition, construction commitments for the construction of a drug and alcohol detoxification and rehabilitation facility totaled \$1,322,845 at December 31, 2012.

These projects are significantly funded by federal and state grants.

NOTE 12 OPERATING LEASE

The County has entered into a lease agreement with the Allentown Parking Authority to lease up to 326 parking spaces in a 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 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 an asset that will be amortized over the length of the lease. The unamortized balance at December 31, 2012 was \$3,375,000.

NOTE 13 STABILIZATION FUND

A Stabilization Fund was established by the Board of Commissioners through Ordinance 2003-168 as a prudent budgetary practice to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures. All transfers into or transfers from the Stabilization Fund shall be established during the County's budget process or upon approval of a subsequent ordinance of the Board of Commissioners. The balance of the Fund at December 31, 2012 was \$25,000,000 and is included in unassigned fund balance in the Governmental Funds Balance Sheet and unrestricted net position in the Statement of Net Position.

NOTE 14 RESTATEMENT OF FUND BALANCE

In 2012, the Cedarbrook Fund was reclassified from the General Fund to the Special Revenue Funds. In addition, the Children and Youth Fund, which was previously included in the Other Governmental Funds category, was required to be separately reported as a major fund. As a result, the General Fund, Cedarbrook Fund, Children and Youth Fund, and Other Governmental Funds have been restated in the Statement of Revenues, Expenditures, and Changes in Fund Balances as follows:

	<u>General Fund</u>	<u>Cedarbrook Fund</u>	<u>Children and Youth Fund</u>	<u>Other Governmental Funds</u>
Beginning fund balance as of January 1, 2012, as previously reported	\$ 50,128,751	\$ 0	\$ 0	\$ 25,839,344
Reclassifications to special revenue funds	(5,885,472)	5,885,472		
Change of major funds			(170,922)	170,922
Beginning fund balance, as restated	<u>\$ 44,243,279</u>	<u>\$ 5,885,472</u>	<u>\$ (170,922)</u>	<u>\$ 26,010,266</u>

NOTE 15 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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes	\$ 103,097,019	\$ 103,261,399	\$ 104,399,721	\$ 1,138,322
Grants and reimbursements	6,428,371	14,868,256	14,584,331	(283,925)
Departmental earnings	11,828,024	11,944,238	11,815,554	(128,684)
Costs and fines	3,673,126	3,673,126	3,688,795	15,669
Investment income	184,005	184,005	143,432	(40,573)
Rents	424,995	432,221	333,030	(99,191)
Payments in lieu of taxes	183,290	183,290	229,626	46,336
Other revenues	144,472	309,434	774,326	464,892
Total revenues	<u>125,963,302</u>	<u>134,855,969</u>	<u>135,968,815</u>	<u>1,112,846</u>
EXPENDITURES				
Current:				
Elected officials	18,993,835	18,992,571	18,697,768	294,803
County executive	3,555,028	3,565,982	3,481,956	84,026
Administration	20,060,702	21,900,785	20,735,488	1,165,297
Human services	580,188	565,118	553,140	11,978
General services	7,694,743	7,649,976	7,356,505	293,471
Corrections	33,723,534	32,863,112	31,907,383	955,729
Department of law	1,351,012	1,350,770	1,343,630	7,140
Courts	27,025,507	27,095,667	25,900,602	1,195,065
Development	621,931	9,840,157	9,387,326	452,831
Total expenditures	<u>113,606,480</u>	<u>123,824,138</u>	<u>119,363,798</u>	<u>4,460,340</u>
Excess of revenues over expenditures	<u>12,356,822</u>	<u>11,031,831</u>	<u>16,605,017</u>	<u>5,573,186</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	9,383,728	9,401,936	9,382,763	(19,173)
Indirect cost allocation in	12,414,484	12,449,996	12,449,996	0
Operating transfers out	(37,529,071)	(40,605,887)	(36,404,687)	4,201,200
Indirect cost allocation out	(5,824,765)	(5,824,765)	(5,824,765)	0
Total other financing sources (uses)	<u>(21,555,624)</u>	<u>(24,578,720)</u>	<u>(20,396,693)</u>	<u>4,182,027</u>
Net change in fund balances	(9,198,802)	(13,546,889)	(3,791,676)	9,755,213
Fund balance, January 1	<u>37,360,000</u>	<u>45,022,738</u>	<u>45,023,821</u>	<u>1,083</u>
Fund balance, December 31	<u>\$ 28,161,198</u>	<u>\$ 31,475,849</u>	<u>\$ 41,232,145</u>	<u>\$ 9,756,296</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Mental Health Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 13,754,210	\$ 7,094,806	\$ 8,832,046	\$ 1,737,240
Departmental earnings	13,002	13,003	16,665	3,662
Costs and fines				
Investment income	9,500	9,499	12,916	3,417
Rents				
Payments in lieu of taxes				
Other revenues	<u>2</u>	<u>2</u>		(2)
Total revenues	<u>13,776,714</u>	<u>7,117,310</u>	<u>8,861,627</u>	<u>1,744,317</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	13,870,022	13,092,766	12,850,995	241,771
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>13,870,022</u>	<u>13,092,766</u>	<u>12,850,995</u>	<u>241,771</u>
Excess of revenues over (under) expenditures	<u>(93,308)</u>	<u>(5,975,456)</u>	<u>(3,989,368)</u>	<u>1,986,088</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	874,308	443,308	383,158	(60,150)
Indirect cost allocation in				
Operating transfers out	(398,978)	(355,815)	(355,763)	52
Indirect cost allocation out	<u>(382,022)</u>	<u>(382,022)</u>	<u>(382,022)</u>	<u>0</u>
Total other financing sources (uses)	<u>93,308</u>	<u>(294,529)</u>	<u>(354,627)</u>	<u>(60,098)</u>
Net change in fund balances	0	(6,269,985)	(4,343,995)	1,925,990
Fund balance, January 1	<u>0</u>	<u>9,610,243</u>	<u>9,610,405</u>	<u>162</u>
Fund balance, December 31	<u>\$ 0</u>	<u>\$ 3,340,258</u>	<u>\$ 5,266,410</u>	<u>\$ 1,926,152</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Mental Health Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2012

	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 (net of deferred revenues) at December 31, 2011	(8,293,771)	
Accrued as receivables (net of deferred revenues) at December 31, 2012 but not recognized in budget	4,209,991	4,209,991
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2011	(1,316,634)	
Accrued as liabilities at December 31, 2012 but not recognized in budget	1,056,419	1,056,419
Budgetary Basis	\$ (4,343,995)	\$ 5,266,410

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 74,465,667	\$ 72,731,592	\$ 72,799,200	\$ 67,608
Departmental earnings				
Costs and fines				
Investment income	200,003	72,003	69,662	(2,341)
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>74,665,670</u>	<u>72,803,595</u>	<u>72,868,862</u>	<u>65,267</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	80,161,376	76,994,562	70,599,153	6,395,409
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>80,161,376</u>	<u>76,994,562</u>	<u>70,599,153</u>	<u>6,395,409</u>
Excess of revenues over (under) expenditures	<u>(5,495,706)</u>	<u>(4,190,967)</u>	<u>2,269,709</u>	<u>6,460,676</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(1,122,619)	(5,339,994)	(3,989,042)	1,350,952
Indirect cost allocation out	(190,367)	(190,367)	(190,367)	0
Total other financing sources (uses)	<u>(1,312,986)</u>	<u>(5,530,361)</u>	<u>(4,179,409)</u>	<u>1,350,952</u>
Net change in fund balances	(6,808,692)	(9,721,328)	(1,909,700)	7,811,628
Fund balance, January 1	41,940,000	31,358,026	31,362,646	4,620
Fund balance, December 31	<u>\$ 35,131,308</u>	<u>\$ 21,636,698</u>	<u>\$ 29,452,946</u>	<u>\$ 7,816,248</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Health Choices Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2012

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ (2,918,142)	\$ 28,222,317
Increase (Decrease):		
Due to revenues:		
Accrued as receivables at December 31, 2012 but not recognized in budget	(55,076)	(55,076)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2011	(222,187)	
Accrued as liabilities at December 31, 2012 but not recognized in budget	<u>1,285,705</u>	<u>1,285,705</u>
Budgetary Basis	<u>\$ (1,909,700)</u>	<u>\$ 29,452,946</u>

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 24,440,854	\$ 27,271,748	\$ 27,751,595	\$ 479,847
Departmental earnings	235,689	235,689	384	(235,305)
Costs and fines				
Investment income	2,501	2,501	4,674	2,173
Rents				
Payments in lieu of taxes				
Other revenues	2,000	2,000	6,212	4,212
Total revenues	<u>24,681,044</u>	<u>27,511,938</u>	<u>27,762,865</u>	<u>250,927</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	27,160,526	25,142,241	23,683,853	1,458,388
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>27,160,526</u>	<u>25,142,241</u>	<u>23,683,853</u>	<u>1,458,388</u>
Excess of revenues over (under) expenditures	<u>(2,479,482)</u>	<u>2,369,697</u>	<u>4,079,012</u>	<u>1,709,315</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,892,544	3,624,650	3,624,646	(4)
Indirect cost allocation in				
Operating transfers out	(537,389)	(618,674)	(545,963)	72,711
Indirect cost allocation out	(875,673)	(875,673)	(875,673)	0
Total other financing sources (uses)	<u>2,479,482</u>	<u>2,130,303</u>	<u>2,203,010</u>	<u>72,707</u>
Net change in fund balances	0	4,500,000	6,282,022	1,782,022
Fund balance, January 1	0	1	(885,791)	(885,792)
Fund balance, December 31	<u>\$ 0</u>	<u>\$ 4,500,001</u>	<u>\$ 5,396,231</u>	<u>\$ 896,230</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Children and Youth Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2012

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 170,922	\$ 0
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2011	3,142,474	
Accrued as receivables (net of deferred revenues) at December 31, 2012 but not recognized in budget	3,605,700	3,605,700
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2011	(2,427,605)	
Accrued as liabilities at December 31, 2012 but not recognized in budget	1,790,531	1,790,531
Budgetary Basis	\$ 6,282,022	\$ 5,396,231

COUNTY OF LEHIGH, PENNSYLVANIA
 Cedarbrook Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Taxes				
Grants and reimbursements	\$ 59,386,306	\$ 58,187,452	\$ 56,868,634	\$ (1,318,818)
Departmental earnings	5,847,921	5,850,027	6,576,702	726,675
Costs and fines				
Investment income	6,000	6,000	875	(5,125)
Rents				
Payments in lieu of taxes				
Other revenues	10,252	10,252	3,098	(7,154)
Total revenues	<u>65,250,479</u>	<u>64,053,731</u>	<u>63,449,309</u>	<u>(604,422)</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services				
General services				
Nursing homes	61,581,608	61,948,191	61,722,072	226,119
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>61,581,608</u>	<u>61,948,191</u>	<u>61,722,072</u>	<u>226,119</u>
Excess of revenues				
over (under) expenditures	<u>3,668,871</u>	<u>2,105,540</u>	<u>1,727,237</u>	<u>(378,303)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,227,277	3,498,494	3,497,222	(1,272)
Indirect cost allocation in				
Operating transfers out	(2,271,415)	(2,661,293)	(1,935,096)	726,197
Indirect cost allocation out	(3,624,733)	(3,624,733)	(3,624,733)	0
Total other financing sources (uses)	<u>(3,668,871)</u>	<u>(2,787,532)</u>	<u>(2,062,607)</u>	<u>724,925</u>
Net change in fund balances	0	(681,992)	(335,370)	346,622
Fund balance, January 1	0	681,992	681,992	0
Fund balance, December 31	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 346,622</u>	<u>\$ 346,622</u>

COUNTY OF LEHIGH, PENNSYLVANIA
 Cedarbrook Fund
 Adjustments to Reconcile GAAP Basis to Budgetary Basis
 For the Year Ended December 31, 2012

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ (2,179,772)	\$ 3,705,700
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2011	8,672,504	
Accrued as receivables (net of deferred revenues) at December 31, 2012 but not recognized in budget	(5,953,494)	(5,953,494)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2011	(3,469,024)	
Accrued as liabilities at December 31, 2012 but not recognized in budget	<u>2,594,416</u>	<u>2,594,416</u>
Budgetary Basis	<u><u>\$ (335,370)</u></u>	<u><u>\$ 346,622</u></u>