

*County of Lehigh,
Pennsylvania*

December 31, 2016

*Financial Statements
and Independent Auditor's Report*



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County of Lehigh

Year Ended December 31, 2016

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Independent Auditor's Report

To the Board of County Commissioners
County of Lehigh, Pennsylvania
Allentown, Pennsylvania

Report on the Financial Statements

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, Pennsylvania (the County) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table 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, Pennsylvania as of December 31, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedule of County contributions - pension, and schedule of changes in the County's net pension liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 27, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

RKL LLP

June 27, 2017
Lancaster, Pennsylvania

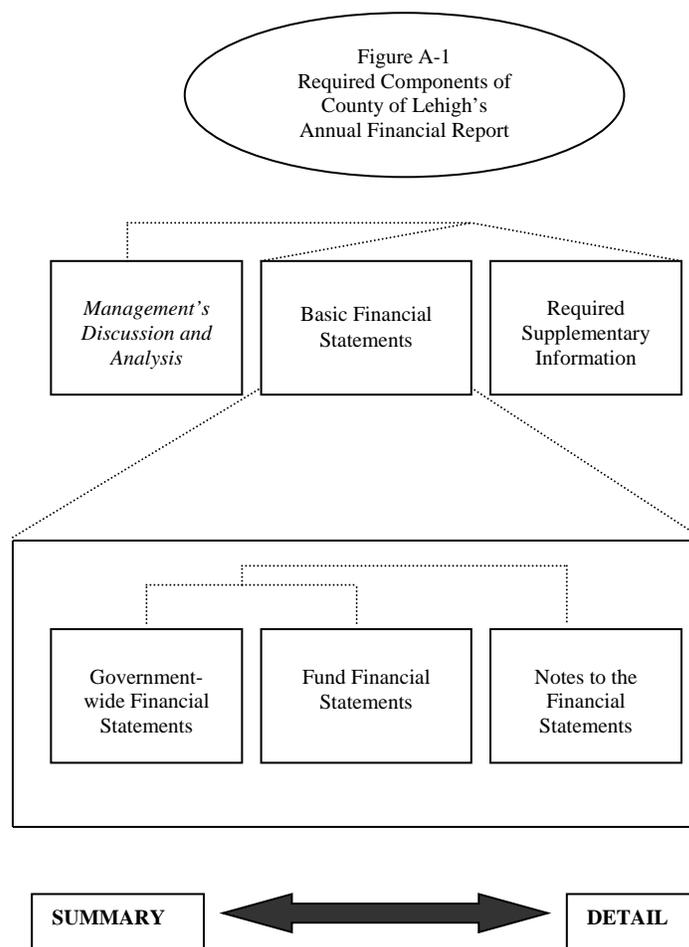
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016. 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 County’s assets, liabilities, deferred outflows of resources, and deferred inflows of resources. 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 or 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 that covers the costs of the related service 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 and deferred outflows of resources-pension exceeded liabilities by approximately \$127.9 million at the close of the 2016 fiscal year. The following is a condensed summary of net position for the years 2015 and 2016:

County of Lehigh's Net Position

	Total Governmental Activities		Total Business - Type Activities		Total	
	(Restated) 2015	2016	(Restated) 2015	2016	(Restated) 2015	2016
Current and other assets	\$ 141,424,763	\$ 169,737,319	\$ 790,642	\$ 1,020,792	\$ 142,215,405	\$ 170,758,111
Capital assets	242,609,312	240,937,499	986,979	821,545	243,596,291	241,759,044
Total Assets	<u>384,034,075</u>	<u>410,674,818</u>	<u>1,777,621</u>	<u>1,842,337</u>	<u>385,811,696</u>	<u>412,517,155</u>
Deferred outflows of resources – Pension	31,703,277	28,288,808	53,192	47,492	31,756,469	28,336,300
General obligation bonds and notes payable	127,596,018	126,754,123			127,596,018	126,754,123
Other liabilities	165,605,061	185,981,927	243,065	267,053	165,848,126	186,248,980
Total Liabilities	<u>293,201,079</u>	<u>312,736,050</u>	<u>243,065</u>	<u>267,053</u>	<u>293,444,144</u>	<u>313,003,103</u>
Net Position:						
Net investment in capital assets	117,986,541	109,696,527	986,979	821,545	118,973,520	110,518,072
Restricted	57,352,526	75,014,766			57,352,526	75,014,766
Unrestricted deficit	(52,802,794)	(58,483,717)	600,769	801,231	(52,202,025)	(57,682,486)
Total Net Position	<u>\$ 122,536,273</u>	<u>\$ 126,227,576</u>	<u>\$ 1,587,748</u>	<u>\$ 1,622,776</u>	<u>\$ 124,124,021</u>	<u>\$ 127,850,352</u>

Current and other assets increased \$28.5 million largely due to the timing of receipt of grant revenues. The 2015/2016 Pennsylvania budget impasse resulted in large fluctuations between cash, grants receivable, and unearned grant revenue liability. Some grant revenues that have been traditionally received in cash at the close of the year, but categorized as unearned grant revenue, were not received in 2015 due to the impasse. This situation did not occur for the 2016/2017 Pennsylvania budget resulting in an expected increase in cash position with a related decrease in grants receivable and increase in unearned grant revenue. Net capital assets decreased \$1.8 million due to the net of \$8.9 million in capital asset purchases and \$10.7 million in net current year accumulated depreciation. See Note 5 on page 41 for additional capital asset information.

General obligation bonds and notes payable decreased \$.8 million. See Note 3 on Page 38 for additional information concerning the County's long-term debt.

Other liabilities increased \$20.4 million due to the net of:

- An increase in accounts payable of \$11.3 million due to an increase in the Health Choices Fund of \$7.3 million resulting from a change in managed care assessment reimbursements, an increase in the Mental Health Fund of \$1.3 million resulting from lengthened contracted service rate negotiations that affected the timing of related payments, and an increase in the Area Agency on Aging Fund of \$2.3 million resulting from state medical assistance transportation program (MATP) reimbursements, which are pass-through funds to the Lehigh and Northampton Transportation Authority (LANTA).
- An increase in unearned grant revenue of \$5.1 million due to the timing of receipt of grant revenues resulting from the 2015/2016 Commonwealth of Pennsylvania budget impasse noted above.

- An increase in unamortized bond premium of \$1.9 million resulting from the net of an increase of \$3.2 million due to the issuance of Bond Fund 2016 and the annual amortization of this balance totaling \$1.3 million.
- An increase in net pension liability of \$4.5 million. The County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its December 31, 2015 financial statements which required the reporting of net pension liability as well as deferred outflows of resources - pension. See note 1 on page 31 and note 6 on page 42 for additional information.
- A decrease in accrued worker's compensation of \$1.1 million due to a decrease in actuarially determined case loss reserves for several of the County's oldest open claims.
- A decrease in unfunded other postemployment benefits of \$.9 million. See note 7 on page 46 for additional information.

Total net investment in capital assets/net position restricted for capital improvements increased \$13.6 million due to the net of a decrease in net capital assets of \$1.8 million noted above, a decrease in general obligation bonds and notes payable of \$.8 million noted above, the net increase in unamortized bond premium totaling \$1.9 million, and the increase in capital asset fund balances of \$16.5 million largely due to the issuance of Bond Fund 2016. Unrestricted deficit increased \$5.5 million largely due to the net change in deferred outflows of resources-pension and net pension liability. See note 6 on page 42 for additional information of these balances.

Changes in Net Position:

The following is a summary of the key elements comprising the changes in net position for the years 2015 and 2016.

County of Lehigh's Changes in Net Position

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>(Restated)</u> <u>2015</u>	<u>2016</u>	<u>(Restated)</u> <u>2015</u>	<u>2016</u>	<u>(Restated)</u> <u>2015</u>	<u>2016</u>
Revenues:						
Program revenue:						
Charges for services	\$ 31,945,571	\$ 30,853,148	\$ 1,056,101	\$ 1,155,694	\$ 33,001,672	\$ 32,008,842
Operating grants and contributions	210,251,551	237,476,159			210,251,551	237,476,159
General revenues:						
Property taxes	107,700,336	105,544,668			107,700,336	105,544,668
Unrestricted investment earnings	356,819	525,025	2,207	3,193	359,026	528,218
Transfers	141,574	118,777	(141,574)	(118,777)		
Total revenues	350,395,851	374,517,777	916,734	1,040,110	351,312,585	375,557,887
Expenses:						
Elected officials	23,568,319	26,182,375			23,568,319	26,182,375
County executive	4,288,107	4,867,752			4,288,107	4,867,752
Administration	13,963,226	15,249,566			13,963,226	15,249,566
Human services	132,652,866	157,025,910	1,029,295	1,005,082	133,682,161	158,030,992
General services	15,626,569	13,564,492			15,626,569	13,564,492
Nursing homes	62,941,676	74,248,842			62,941,676	74,248,842
Corrections	33,999,268	35,257,286			33,999,268	35,257,286
Department of law	41,016	134,200			41,016	134,200
Courts	34,078,660	35,377,950			34,078,660	35,377,950
Development	3,065,815	2,749,061			3,065,815	2,749,061
Interest on long-term debt	6,585,923	6,169,040			6,585,923	6,169,040
Total expenses	330,811,445	370,826,474	1,029,295	1,005,082	331,840,740	371,831,556
Changes in Net Position	19,584,406	3,691,303	(112,561)	35,028	19,471,845	3,726,331
Beginning Net Position, as restated	102,951,867	122,536,273	1,700,309	1,587,748	104,652,176	124,124,021
Ending Net Position	<u>\$122,536,273</u>	<u>\$126,227,576</u>	<u>\$ 1,587,748</u>	<u>\$ 1,622,776</u>	<u>\$124,124,021</u>	<u>\$127,850,352</u>

The County's total revenues increased \$24.2 million to \$375.6 million due to:

- A decrease in charges for services of \$1 million largely due to a decrease in rent revenue received for the Minor League Ballpark due to the refinancing of the related debt. See Note 3 on Page 38 for additional information concerning the County's long-term debt.
- An increase in operating grants and contributions of \$27.2 million due to an increase in the Health Choices Fund of \$11.4 million resulting from a change in managed care assessment reimbursements, an increase in the Children and Youth Fund of \$2.4 million due to state Act 148 reimbursements, an increase in the Cedarbrook Fund of \$9.6 million resulting from a transfer of funds between the county and the Pennsylvania Department of Human Services, known as an intergovernmental transfer (IGT), and an increase in the Area Agency on Aging Fund of \$2.2 million due to increased state MATP reimbursements, which are pass-through funds to LANTA.
- A decrease in property taxes of \$2.2 million due to a decrease in millage rate from 3.75 in 2015 to 3.68 mills in 2016.

The County's expenses totaled \$371.8 million. The Human Services and Nursing Homes functions comprise 62.5% of the total expenses. The Corrections and Courts functions comprise 19% of the total expenses.

Financial Analysis of the Governmental Funds

The County's governmental funds combined fund balances were \$119.4 million, which is a \$13.8 million increase from the prior year. The primary reasons for this increase in fund balances were:

- The General Fund increased \$2.8 million as tightened budgetary constraints resulted in favorable budgetary variations.
- The Health Choices Fund decreased \$3.1 million. These funds are restricted for the payment of specific program expenditures.
- The Bond Fund 2016 increased \$17.9 million. These funds are restricted for the payment of capital related expenditures.
- The Other Governmental Funds decreased \$4 million largely due to the closing of Bond Fund 2007 which had a \$5.3 million fund balance at the end of 2015 and an increase in sinking fund reserves of \$.7 million due to the issuance of Bond Fund 2016.

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 \$.4 million, or .3 percent, largely due to an increase in the Grants and Reimbursements budget from \$6.2 million to \$6.6 million.

Differences between the original adopted budget and the final amended budget of expenditures in the General Fund resulted in a net increase of \$2 million, or 1.7 percent, which is largely the result of revisions for healthcare expenses for both active and retired employees. The county is self-insured for such expenses.

Final Budget vs. Actual

- \$.1 million favorable variance in tax revenues.
- \$1.1 million favorable variance in departmental earnings largely due to activity in services provided through the District Attorney, Sheriff, Judicial Records, Collections, and Tax Claim offices.
- \$.7 million unfavorable variance in other revenues due to the budgeted sale of County owned land that did not occur.
- \$1.4 million favorable variance in Corrections expenditures largely due to favorable budgetary variations in personnel costs, operational costs such as fuel and electricity, and juvenile maintenance costs.
- \$2.3 million favorable variance in Courts expenditures largely due to favorable budgetary variations in personnel costs, operational costs such as legal services and other professional services, and shared institutional costs for juvenile placements.

Budgeted operating transfers in and operating transfers out include a \$4.2 million underwrite transfer from the Stabilization Fund to the Operating Fund that did not occur. The remaining variance in net other financing sources / (uses) of \$8.2 million is largely due to anticipated capital asset activity totaling \$3.6 million that did not occur as of the close of the year. 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 which is carried forward to the following year. In addition, a budgeted underwrite transfer to the Cedarbrook Fund of \$3.7 million was not required.

Capital Assets

The following is a schedule of the County’s capital assets as of December 31, 2015 and December 31, 2016:

County of Lehigh’s Capital Assets

	Total Governmental Activities		Total Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Land	\$ 12,240,981	\$ 12,240,981	\$ 236,533	\$ 236,533	\$ 12,477,514	\$ 12,477,514
Buildings and improvements	170,533,501	164,893,388	723,366	548,939	171,256,867	165,442,327
Machinery and equipment	5,122,626	5,080,824	20,380	9,664	5,143,006	5,090,488
Furniture and Fixtures	1,429,974	1,000,373	6,700	26,409	1,436,674	1,026,782
Easements	20,002,890	20,429,545			20,002,890	20,429,545
Infrastructure	33,279,340	37,292,388			33,279,340	37,292,388
Total	\$ 242,609,312	\$ 240,937,499	\$ 986,979	\$ 821,545	\$ 243,596,291	\$ 241,759,044

Noteworthy capital asset purchases/projects that took place in 2016 were as follows:

- \$5.1 million - Major bridge reconstruction
- \$.6 million – Telephone system upgrade
- \$.4 million - Agriculture land easements

Additional information of the County’s Capital Assets can be found in Note 5 on page 41.

Debt Administration

At year-end the County had \$119.4 million in general obligation bonds and \$7.3 million in general obligation notes outstanding. More detailed information about the County's long-term liabilities is presented in Note 3 on Page 38.

The County's general obligation debt has been rated as Aa1 by Moody's Investor Services and AA by Standard and Poor's 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 \$614 million as stated within the debt statement of the County's most recent note 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 4.6 percent compared to the state's rate of 5.4 percent and the national rate of 4.7 percent.
- Northeast region 2016 inflation was 1.9 percent.

These indicators were taken into account when adopting the general fund budget for 2017.

Property tax millage for 2017 decreased to 3.64 mills from 3.68 mills in 2016.

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 131,859,556	\$ 933,964	\$ 132,793,520
Receivables:			
Grants	22,140,020		22,140,020
Real estate taxes	3,650,537		3,650,537
Other	2,018,433	86,828	2,105,261
Other	3,099,098		3,099,098
Cash and cash equivalents - restricted	6,969,675		6,969,675
Capital assets, not being depreciated	32,670,526	236,533	32,907,059
Capital assets (net of accumulated depreciation)	208,266,973	585,012	208,851,985
Total assets	410,674,818	1,842,337	412,517,155
DEFERRED OUTFLOWS OF RESOURCES - PENSION	28,288,808	47,492	28,336,300
LIABILITIES			
Accounts payable	26,302,043	57,329	26,359,372
Deposits and agency amounts payable	6,969,675		6,969,675
Accrued payroll and payroll taxes	4,185,186	8,052	4,193,238
Due to other governmental units	287,205		287,205
Unearned grant revenues	8,432,846		8,432,846
Current portions of long term liabilities:			
General obligation bonds payable	11,900,000		11,900,000
Note payable	1,926,671		1,926,671
Unamortized bond premium	664,734		664,734
Noncurrent portions of long term liabilities:			
Accrued vacation and other compensation	16,661,970		16,661,970
Accrued worker's compensation	4,976,751		4,976,751
General obligation bonds payable	107,530,000		107,530,000
Note payable	5,397,452		5,397,452
Unamortized bond premium	3,822,115		3,822,115
Net pension liability	84,590,385	142,011	84,732,396
Unfunded other postemployment benefits	29,089,017	59,661	29,148,678
Total liabilities	312,736,050	267,053	313,003,103
NET POSITION			
Net investment in capital assets	109,696,527	821,545	110,518,072
Restricted for:			
Program expenditures	46,929,010		46,929,010
Debt service	755,646		755,646
Capital improvements	27,330,110		27,330,110
Unrestricted (deficit)	(58,483,717)	801,231	(57,682,486)
Total net position	\$ 126,227,576	\$ 1,622,776	\$ 127,850,352

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, 2016

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	\$ 23,480,840	\$ 2,701,535	\$ 6,172,706	\$ 2,165,771	\$ (17,843,898)		\$ (17,843,898)
County executive	3,955,434	912,318	1,298	210	(4,866,244)		(4,866,244)
Administration	30,999,993	(15,750,427)	5,718,335	945,625	(8,585,606)		(8,585,606)
Human services	154,173,104	2,852,806	158,078	148,289,334	(8,578,498)		(8,578,498)
General services	14,810,260	(1,245,768)	201,891	11,083,791	(2,278,810)		(2,278,810)
Nursing homes	69,007,012	5,241,830	7,786,059	65,916,304	(546,479)		(546,479)
Corrections	33,512,990	1,744,296	3,554,814	535,883	(31,166,589)		(31,166,589)
Department of law	1,350,499	(1,216,299)	217,273		83,073		83,073
Courts	30,843,630	4,534,320	4,448,280	7,161,332	(23,768,338)		(23,768,338)
Development	2,622,442	126,619	2,594,414	1,377,909	1,223,262		1,223,262
Interest on long-term debt	6,169,040				(6,169,040)		(6,169,040)
Total governmental activities	370,925,244	(98,770)	30,853,148	237,476,159	(102,497,167)		(102,497,167)
Business-type activities:							
Enterprise funds	906,312	98,770	1,155,694			150,612	150,612
Total primary government	\$ 371,831,556	\$ 0	\$ 32,008,842	\$ 237,476,159	(102,497,167)	150,612	(102,346,555)
			General revenues:				
			Taxes		105,544,668		105,544,668
			Unrestricted investment earnings		525,025	3,193	528,218
			Transfers		118,777	(118,777)	0
			Total general revenues		106,188,470	(115,584)	106,072,886
			Change in net position		3,691,303	35,028	3,726,331
			Net position, January 1, as restated (see Note 1)		122,536,273	1,587,748	124,124,021
			Net position, December 31		\$ 126,227,576	\$ 1,622,776	\$ 127,850,352

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

COUNTY OF LEHIGH, PENNSYLVANIA
 Balance Sheet
 Governmental Funds
 December 31, 2016

	General	Mental Health	Health Choices	Children and Youth	Cedarbrook	Bond Fund 2016	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 39,993,418	\$ 5,663,190	\$ 34,166,547	\$ 1,650,787	\$ 1,776,251	\$ 18,882,522	\$ 28,461,486	\$ 130,594,201
Receivables:								
Grants	1,275,575	13,451	626,167	1,358,796	9,670,775		9,195,256	22,140,020
Real estate taxes	3,650,537							3,650,537
Other	1,812,567	76,061		2,831	108,914		251,033	2,251,406
Other	23,665			433			3,075,000	3,099,098
Cash and cash equivalents - restricted	519,048		6,200,000				250,627	6,969,675
Total assets	<u>\$ 47,274,810</u>	<u>\$ 5,752,702</u>	<u>\$ 40,992,714</u>	<u>\$ 3,012,847</u>	<u>\$ 11,555,940</u>	<u>\$ 18,882,522</u>	<u>\$ 41,233,402</u>	<u>\$ 168,704,937</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 2,023,240	\$ 4,505,744	\$ 7,649,935	\$ 2,569,573	\$ 2,498,656	\$ 981,582	\$ 6,263,047	\$ 26,491,777
Deposits and agency amounts payable	519,048		6,200,000				250,627	6,969,675
Payroll and payroll taxes	2,069,341	86,102	10,835	224,702	1,314,459		450,502	4,155,941
Due to other governmental units	287,205							287,205
Unearned grant revenues		1,160,856	856,446	218,572			6,196,972	8,432,846
Total liabilities	<u>4,898,834</u>	<u>5,752,702</u>	<u>14,717,216</u>	<u>3,012,847</u>	<u>3,813,115</u>	<u>981,582</u>	<u>13,161,148</u>	<u>46,337,444</u>
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - real estate taxes	<u>\$ 2,929,712</u>							<u>\$ 2,929,712</u>
Fund balances:								
Restricted			26,275,498			17,900,940	22,603,307	66,779,745
Committed					7,742,825		5,468,947	13,211,772
Unassigned	39,446,264							39,446,264
Total fund balances	<u>39,446,264</u>	<u>0</u>	<u>26,275,498</u>	<u>0</u>	<u>7,742,825</u>	<u>17,900,940</u>	<u>28,072,254</u>	<u>119,437,781</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 47,274,810</u>	<u>\$ 5,752,702</u>	<u>\$ 40,992,714</u>	<u>\$ 3,012,847</u>	<u>\$ 11,555,940</u>	<u>\$ 18,882,522</u>	<u>\$ 41,233,402</u>	<u>\$ 168,704,937</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, 2016

Total fund balances for governmental funds \$ 119,437,781

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	12,240,981
Buildings and improvements, net of \$126,580,256 accumulated depreciation	164,893,388
Machinery and equipment, net of \$49,985,646 accumulated depreciation	5,080,824
Furniture and fixtures, net of \$7,130,079 accumulated depreciation	1,000,373
Easements	20,429,545
Infrastructure, net of \$7,224,619 accumulated depreciation	<u>37,292,388</u>

Net capital assets 240,937,499

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.

1,192,871

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

2,929,712

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, 2016 are:

Accrued vacation and other compensation	(16,661,970)
Accrued worker's compensation	(4,976,751)
Bonds and notes payable	(126,754,123)
Unamortized bond premium	(4,486,849)
Net pension liability (net of related deferred outflows of resources)	(56,301,577)
Unfunded other postemployment benefits	<u>(29,089,017)</u> <u>(238,270,287)</u>

Total net position of governmental activities \$ 126,227,576

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, 2016

	General	Mental Health	Health Choices	Children and Youth	Cedarbrook	Bond Fund 2016	Other Governmental Funds	Total Governmental Funds
REVENUES								
Taxes	\$ 106,192,207							\$ 106,192,207
Grants and reimbursements	6,008,752	\$ 13,852,056	\$ 87,926,584	\$ 23,527,794	\$ 65,916,304		\$ 40,244,669	237,476,159
Departmental earnings	13,066,962	11,470			7,434,470		3,628,130	24,141,032
Judicial costs and fines	4,006,109						27,108	4,033,217
Investment income	224,224	17,015	134,281	11,218	7,358		130,929	525,025
Rents	473,323						456,467	929,790
Other	308,274			15,102	3,800		136,779	463,955
Total revenues	<u>130,279,851</u>	<u>13,880,541</u>	<u>88,060,865</u>	<u>23,554,114</u>	<u>73,361,932</u>	<u>0</u>	<u>44,624,082</u>	<u>373,761,385</u>
EXPENDITURES								
Current:								
Elected officials	21,423,683						1,097,059	22,520,742
County executive	3,784,129							3,784,129
Administration	23,865,594					\$ 1,142,338	3,729,806	28,737,738
Human services	212,652	13,767,004	89,962,529	25,698,567			24,143,726	153,784,478
General services	7,597,598					125,484	10,139,693	17,862,775
Nursing homes					66,136,550	17,158	1,031,488	67,185,196
Corrections	31,036,941					16,000	395,089	31,448,030
Department of law	1,306,714							1,306,714
Courts	24,747,714						5,101,247	29,848,961
Development	430,114						2,102,037	2,532,151
Indirect cost allocation charges	(9,103,265)	349,888	247,061	1,216,461	5,045,164		2,145,921	(98,770)
Debt Service:								
Principal retirement							9,734,962	9,734,962
Interest							5,338,745	5,338,745
Total expenditures	<u>105,301,874</u>	<u>14,116,892</u>	<u>90,209,590</u>	<u>26,915,028</u>	<u>71,181,714</u>	<u>1,300,980</u>	<u>64,959,773</u>	<u>373,985,851</u>
Excess of revenues over (under) expenditures	<u>24,977,977</u>	<u>(236,351)</u>	<u>(2,148,725)</u>	<u>(3,360,914)</u>	<u>2,180,218</u>	<u>(1,300,980)</u>	<u>(20,335,691)</u>	<u>(224,466)</u>
OTHER FINANCING SOURCES (USES)								
Operating transfers in	12,603,821	567,691		3,973,778	8,094,677		23,149,103	48,389,070
Operating transfers out	(34,815,793)	(331,340)	(965,472)	(612,864)	(10,059,226)	(702,834)	(3,141,064)	(50,628,593)
Proceeds of general obligation note						19,904,754	16,295,559	36,200,313
Payment to refunded bond escrow agent							(19,944,319)	(19,944,319)
Total other financing sources / (uses)	<u>(22,211,972)</u>	<u>236,351</u>	<u>(965,472)</u>	<u>3,360,914</u>	<u>(1,964,549)</u>	<u>19,201,920</u>	<u>16,359,279</u>	<u>14,016,471</u>
Net change in fund balances	2,766,005	0	(3,114,197)	0	215,669	17,900,940	(3,976,412)	13,792,005
Fund balances, January 1	36,680,259	0	29,389,695	0	7,527,156	0	32,048,666	105,645,776
Fund balances, December 31	<u>\$ 39,446,264</u>	<u>\$ 0</u>	<u>\$ 26,275,498</u>	<u>\$ 0</u>	<u>\$ 7,742,825</u>	<u>\$ 17,900,940</u>	<u>\$ 28,072,254</u>	<u>\$ 119,437,781</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, 2016

Net change in fund balances – total governmental funds \$ 13,792,005

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 exceeded capital outlays in the current period. (1,671,813)

The issuance of long-term debt is an other financing source in the governmental funds, but increases the liability in the statement of net position. The repayment of long-term debt principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. 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. (6,112,410)

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 these balances.

Accrued worker’s compensation	1,105,744	
Accrued vacation and other compensation	855,092	
Unearned real estate tax revenue	(647,539)	
Deferred outflows of resources - pension	(3,414,469)	
Net pension liability	(4,545,345)	
Other postemployment benefits	793,207	(5,853,310)

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 \$683,434 depreciation which is included in the capital outlays adjustment above) is included in the governmental activities. 3,536,831

Change in net position of governmental activities \$ 3,691,303

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, 2016

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 933,964	\$ 1,265,355
Other receivables	<u>86,828</u>	<u>1,265,355</u>
Total current assets	1,020,792	1,265,355
Noncurrent assets:		
Capital assets:		
Land and improvements	236,533	
Buildings and improvements	6,671,781	23,354,186
Equipment	391,093	1,010,142
Furniture and fixtures	63,887	1,441,539
Less accumulated depreciation	<u>(6,541,749)</u>	<u>(13,615,663)</u>
Total capital assets (net of accumulated depreciation)	<u>821,545</u>	<u>12,190,204</u>
TOTAL ASSETS	<u>1,842,337</u>	<u>13,455,559</u>
 DEFERRED OUTFLOWS OF RESOURCES - PENSION	 <u>47,492</u>	 <u> </u>
 LIABILITIES		
Current liabilities:		
Accounts payable	57,329	43,239
Accrued payroll and payroll taxes	8,052	29,245
Current portion of general obligation bonds payable	<u> </u>	<u>84,948</u>
Total current liabilities	65,381	157,432
Noncurrent liabilities:		
General obligation bonds payable		770,738
Net pension liability	142,011	
Unfunded other postemployment benefits	<u>59,661</u>	<u> </u>
TOTAL LIABILITIES	<u>267,053</u>	<u>928,170</u>
 NET POSITION		
Net investment in capital assets	821,545	11,334,518
Unrestricted	<u>801,231</u>	<u>1,192,871</u>
TOTAL NET POSITION	<u><u>\$ 1,622,776</u></u>	<u><u>\$ 12,527,389</u></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, 2016

	<u>Business-type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES		
Tenant rentals - Cedar View	\$ 1,155,694	
Government Center revenues		\$ 2,518,102
Total operating revenues	<u>1,155,694</u>	<u>2,518,102</u>
OPERATING EXPENSES		
Administration and maintenance:		
Cedar View apartments	717,974	
Government Center		1,471,683
Depreciation	188,338	683,434
Indirect cost allocation charges	98,770	
Total operating expenses	<u>1,005,082</u>	<u>2,155,117</u>
OPERATING INCOME	<u>150,612</u>	<u>362,985</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	3,193	10,903
Amortization of bond premium		377,772
Interest expense		(256,563)
Total nonoperating revenues (expenses)	<u>3,193</u>	<u>132,112</u>
OTHER FINANCING USES		
Transfers in		2,475,000
Transfers out	(118,777)	(116,700)
	<u>(118,777)</u>	<u>2,358,300</u>
Change in net position	35,028	2,853,397
Total net position, January 1, as restated (see Note 1)	<u>1,587,748</u>	<u>9,673,992</u>
Total net position, December 31	<u>\$ 1,622,776</u>	<u>\$ 12,527,389</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, 2016

	<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	\$ 1,069,075	\$ 2,518,102
Payments to suppliers	(465,875)	(350,625)
Payments to employees	(155,530)	(806,049)
Payments of benefits on behalf of employees	(66,881)	(304,422)
Indirect cost allocation charges	(98,770)	
Net cash provided by operating activities	282,019	1,057,006
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds		2,475,000
Transfers to other funds	(118,777)	(116,700)
Net cash provided by / (used) for noncapital financing activities	(118,777)	2,358,300
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(22,904)	
Principal paid on capital debt		(4,646,933)
Interest paid on capital debt		(256,563)
Net cash used by capital and related financing activities	(22,904)	(4,903,496)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	3,193	10,903
Net cash provided by investing activities	3,193	10,903
 Net increase / (decrease) in cash and cash equivalents	143,531	(1,477,287)
Cash and cash equivalents, January 1	790,433	2,742,642
Cash and cash equivalents, December 31	\$ 933,964	\$ 1,265,355
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 150,612	\$ 362,985
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	188,338	683,434
Increase in other receivables	(86,619)	
Decrease in deferred outflows of resources - pension	5,700	
Increase in accounts payable	14,656	6,019
Increase in payroll and payroll taxes payable	3,679	4,568
Increase in net pension liability	7,711	
Decrease in unfunded other postemployment benefits payable	(2,058)	
Net cash provided by operating activities	\$ 282,019	\$ 1,057,006

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

COUNTY OF LEHIGH, PENNSYLVANIA
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 16,562,719	\$ 16,261,429
Investments, at fair value:		
United States government and municipal obligations	46,448,614	150,056
Corporate and foreign bonds	62,334,331	86,803
Mortgage/asset backed securities	7,886,771	
Common stock	106,320,585	179,210
Mutual funds	184,381,857	70,808
Alternative investments	35,247,262	
Total investments	<u>442,619,420</u>	<u>486,877</u>
Receivables:		
Interest and dividends	1,079,184	
Employee contributions	215,878	
Other		46,901
Total receivables	<u>1,295,062</u>	<u>46,901</u>
Total assets	<u>460,477,201</u>	<u>16,795,207</u>
LIABILITIES		
Accounts payable	211,611	150
Deposits and agency amounts payable		15,077,027
Due to other governmental units		1,718,030
Withdrawals payable	43,063	
Pension benefits payable	219,635	
Due to broker	245,418	
Total liabilities	<u>719,727</u>	<u>16,795,207</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ 459,757,474</u>	<u>\$ 0</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, 2016

	<u>Employee Retirement Plan</u>
ADDITIONS	
Contributions:	
Employee	\$ 6,267,603
Employer	<u>11,156,406</u>
Total contributions	17,424,009
Investment income:	
Interest and dividend income	10,088,951
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	(485,774)
Corporate and foreign bonds	553,836
Common stock	6,871,152
Mutual fund - alternatives	1,532,542
Mutual fund - corporate bonds	20,439
Mutual fund - common stock	9,361,315
Mutual fund - foreign stock	666,711
Partnerships - balanced	<u>(284,964)</u>
	18,235,257
Less investment expenses	<u>(1,315,936)</u>
Net investment income	<u>27,008,272</u>
Other additions	<u>180,093</u>
Total additions	44,612,374
DEDUCTIONS	
Employee contributions refunded	896,654
Retirement benefits paid	29,730,396
Death benefits paid	868,845
Administrative expense	<u>36,875</u>
Total deductions	<u>31,532,770</u>
Change in net position	13,079,604
Net position, January 1	<u>446,677,870</u>
Net position, December 31	<u><u>\$ 459,757,474</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, 2016

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's major operations include administrative and judicial general government, corrections, civil defense, and health and welfare. In addition, the County owns and operates the Cedarbrook and Fountain Hill Nursing Homes and the Lehigh County Jail.

Consistent with the guidance issued by the Governmental Accounting Standards Board (GASB), the County evaluated the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity based on financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the County reviewed the applicability of the following criteria:

The County is financially accountable for:

- Organizations that make up the legal County entity.
- If County officials appoint a voting majority of the legally separate organization's governing body and the County is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County as defined below.

Impose Its Will - If the County can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - Exists if the County (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the County. Fiscal dependency is established if the organization is unable to adopt its budget without approval by the County.

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 GASB, 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 2016, the County paid \$525,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2016, the County provided \$493,615 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.

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 by GASB. 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 anticipated 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 2016.

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 2016 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, amortization of bond premium, and bond interest are reported as nonoperating items as they are ancillary to the principal ongoing operations.

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 an original 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 2016 real estate taxes assessed equaled \$107,419,795 based on a total County valuation of \$29,190,162,000. Based on the 2016 levy of 3.68 mills, a property owner would pay \$3.68 per \$1,000 of assessed valuation.

The dates relevant to the collection of delinquent 2016 real estate taxes are as follows:

July 31, 2017	Notices of unpaid delinquent taxes must be mailed by the County, or its agent.
August 30, 2018	Posting of properties of the pending tax sale (upset sale) to force the recovery of unpaid delinquent taxes, penalties, costs, and interest.
September 10, 2018	This is the earliest date on which the County, or its agent, may conduct the tax sale (upset sale) to recover unpaid delinquent taxes, penalties, costs, and interest.
December 12, 2018	This is the earliest date on which the County, or its agent, 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 land, easements, buildings and improvements, machinery and equipment, furniture and fixtures, 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 are deferred and amortized over the life of the bonds.

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

Interfund Transactions

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

Unearned Revenues

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. 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.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

The County’s net position as of January 1, 2016 has been restated to correct an error in the actuarial calculation of the County’s net pension liability encountered during implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in 2015. The effect on previously reported net position of governmental and business-type activities is as follows:

Governmental Activities

Beginning net position, as previously reported	\$ 117,495,868
Deferred outflows of resources – pension, reduction of previously reported balance	(4,266,211)
Net pension liability – reduction of previously reported balance	<u>9,306,616</u>
Net Position, beginning, as restated	<u>\$ 122,536,273</u>

Business-type Activities

Beginning net position, as previously reported	\$ 1,579,291
Deferred outflows of resources – pension, reduction of previously reported balance	(7,158)
Net pension liability – reduction of previously reported balance	<u>15,615</u>
Net Position, beginning, as restated	<u>\$ 1,587,748</u>

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.

Recent Accounting Pronouncements

On January 1, 2016, the County adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for applying fair value to certain investments and disclosures related to fair value measurements (see Note 2). Adoption of this guidance did not have a material effect on the County's financial statements.

On January 1, 2016 the County adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement amends and defines the authoritative sources of accounting guidance for states and local governments. Adoption of this guidance did not have a material effect on the County's financial statements.

On January 1, 2016 the County adopted the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. Disclosures required by this Statement are included in Note 14.

On January 1, 2016 the County adopted the provisions of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The provisions of this Statement permit qualifying external investment pools and pool participants to measure investments at amortized cost for financial reporting purposes. Adoption of this guidance did not have a material effect on the County's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The Statement amends and expands certain disclosures and required supplementary information for other postemployment benefit (OPEB) plans. GASB statement No. 74 is effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. This Statement amends financial accounting and reporting requirements for sponsors (employers) of OPEB plans. GASB statement No. 75 is effective for periods beginning after June 15, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement amends financial accounting and disclosure requirements for governments receiving resources or beneficial interest in irrevocable split-interest agreements. Statement No. 81 is effective for periods beginning after December 15, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement amends and clarifies certain pension disclosures promulgated by Statements No. 67, 68 and 73. Statement No. 82 is effective for periods beginning after June 15, 2016.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and deferred outflows of resources related to certain asset retirement obligations. Statement No. 83 is effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement amends criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Statement No. 84 is effective for periods beginning after December 15, 2018.

The County is currently evaluating what effect the adoption of GASB Statements No. 74, 75 and 81 through 84 will have on the County's financial statements.

NOTE 2 DEPOSITS AND INVESTMENTS

As of December 31, 2016, the County had the following debt investments and maturities within its governmental, proprietary, and agency funds:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. government treasuries	\$ 89,827	\$ 20,761	\$ 36,557	\$ 9,993	\$ 22,516
U.S. government agencies	60,229	10,205	50,024		
Corporate bonds	86,803		36,559	50,244	
Total	\$ 236,859	\$ 30,966	\$ 123,140	\$ 60,237	\$ 22,516

As of December 31, 2016, 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	20,031,730	1,795,178	\$ 6,249,848	\$ 6,152,141	\$ 5,834,563
U.S. government agencies	25,650,337		2,030,798	1,508,836	22,110,703
Municipal obligations	766,547				766,547
Corporate bonds	62,334,331	2,080,619	32,559,373	16,830,733	10,863,606
Mortgage/asset backed securities	7,886,771		2,330,126	249,947	5,306,698
Total	\$ 116,669,716	\$ 3,875,797	\$ 43,170,145	\$ 24,741,657	\$ 44,882,117

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 20% - 45%) 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, securities with a rating less than “A” 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, 2016, the County’s fixed income retirement investments had a credit rating as follows:

<u>Credit Quality Rating</u>	<u>Percent of Fixed Income Investments</u>
AAA	7%
AA+	44%
AA	3%
AA-	3%
A+	4%
A	15%
A-	11%
BBB+	6%
BBB	6%
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, 2016, the County’s cash and restricted cash balances for its governmental funds, proprietary funds and agency funds were \$155,996,966 and its bank balances were \$160,016,651. 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 or collateralized with securities held by the pledging financial institutions, or their trust departments or agents, but not in the County’s name. The County had petty cash balances totaling \$27,658 at December 31, 2016.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy sets out a fair value hierarchy with the highest priority being quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurement). Accordingly, the degree of judgement exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value measurements will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The following tables present the balances of fair value measurement on a recurring basis by level within the hierarchy as of December 31, 2016:

Employee Retirement Plan

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt Securities				
Treasury obligations	\$ 20,031,730			\$ 20,031,730
Agency obligations		\$ 25,650,337		25,650,337
Municipal obligations		766,547		766,547
Corporate bonds		62,334,331		62,334,331
Mortgage/asset backed securities		7,886,771		7,886,771
	<u>20,031,730</u>	<u>96,637,986</u>	<u>0</u>	<u>116,669,716</u>
Common and Preferred Stocks				
Energy	7,849,298			7,849,298
Materials	3,513,628			3,513,628
Industrials	11,032,134			11,032,134
Consumer discretionary	13,954,303			13,954,303
Consumer staples	7,898,841			7,898,841
Health care	13,692,655			13,692,655
Financials	8,302,464			8,302,464
Information technology	20,399,233			20,399,233
Telecommunication services	2,509,570			2,509,570
Utilities	2,669,002			2,669,002
Real estate	14,499,457			14,499,457
	<u>106,320,585</u>	<u>0</u>	<u>0</u>	<u>106,320,585</u>
Mutual Funds				
Domestic equities	85,939,735			85,939,735
International equities	53,189,775			53,189,775
Commodities	11,768,966			11,768,966
Absolute return	12,221,149			12,221,149
Preferred equity	12,174,134			12,174,134
Short term fixed income	9,088,098			9,088,098
	<u>184,381,857</u>	<u>0</u>	<u>0</u>	<u>184,381,857</u>
Total investments measured by fair value level	<u>\$ 310,734,172</u>	<u>\$ 96,637,986</u>	<u>\$ 0</u>	<u>407,372,158</u>
Investments measured at the net asset value (NAV)				
International long/short hedge fund				23,000,000
Risk arbitrage hedge fund				12,247,262
				<u>35,247,262</u>
Total investments measured at fair value				<u>\$ 442,619,420</u>

Agency Funds

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt Securities				
Treasury obligations	\$ 89,827			\$ 89,827
Agency obligations		\$ 60,229		60,229
Corporate bonds		86,803		86,803
	<u>89,827</u>	<u>147,032</u>	<u>0</u>	<u>236,859</u>
Common and Preferred Stocks				
Energy	5,453			5,453
Materials	6,816			6,816
Industrials	25,751			25,751
Consumer discretionary	24,413			24,413
Consumer staples	18,943			18,943
Health care	26,008			26,008
Financials	28,243			28,243
Information technology	35,941			35,941
Telecommunication services	5,338			5,338
Utilities	2,304			2,304
	<u>179,210</u>	<u>0</u>	<u>0</u>	<u>179,210</u>
Mutual Funds				
International equities	46,133			46,133
Absolute return	24,675			24,675
	<u>70,808</u>	<u>0</u>	<u>0</u>	<u>70,808</u>
Total investments measured at fair value	<u>\$ 339,845</u>	<u>\$ 147,032</u>	<u>\$ 0</u>	<u>\$ 486,877</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	<u>Fair Value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
International long/short hedge fund ⁽¹⁾	\$ 23,000,000	N/A	Quarterly	60 days
Risk arbitrage hedge fund ⁽²⁾	12,247,262	N/A	Monthly	30 days
Total investments measured at the NAV	<u>\$ 35,247,262</u>			

(1) This classification includes a hedge fund which seeks capital appreciation by investing in international equity positions. The fund's investments include primarily international long and short positions on international equities and long positions on absolute return investments. The fair value of the investments has been determined using the NAV per share (or its equivalent) of the investments. The fund has a lock-up period of one year which has been waived by general partner. The fund manager may impose a gate of up to 15% of capital per quarter.

(2) This classification includes a hedge fund which seeks capital appreciation by investing in risk arbitrage transactions in connection with mergers, consolidations, acquisitions and similar transactions. The fund's investments include primarily US Government bonds, long and short position on domestic equities. The fair value of the investments has been determined using the NAV per share (or its equivalent) of the investments. In addition to the stated redemption notice and frequency period, the fund may levy a 2% fee on shareholder redemption who has been shareholder for less than twelve months.

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, 2016:

	Balance at January 1, 2016	Additions	Retirement s	Balance at December 31, 2016	Amount due within one year
Accrued vacation and other compensation	\$ 17,517,062		\$ (855,092)	\$ 16,661,970	
Accrued worker's compensation	6,082,495	\$ 869,109	(1,974,853)	4,976,751	
General obligation bonds payable	113,450,000	32,920,000	(26,940,000)	119,430,000	\$ 11,900,000
Note payable	14,146,018		(6,821,895)	7,324,123	1,926,671
Unamortized bond premium/discount	2,557,249	3,214,754	(1,285,154)	4,486,849	664,734
Other postemployment benefits	29,943,943		(795,265)	29,148,678	
	<u>\$ 183,696,767</u>	<u>\$ 37,003,863</u>	<u>\$ (38,672,259)</u>	<u>\$ 182,028,371</u>	<u>\$ 14,491,405</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, 2016:

		Amount Due Within One Year
\$76,895,000 2007 General Obligation Bonds, serial bonds due in annual installments of \$11,855,000 to \$12,835,000 through November 15, 2022, interest rate of 5.00%	\$ 73,210,000	\$ 11,855,000
\$13,355,000 2007 Guaranteed Authority Bonds, serial bonds due in annual installments of \$40,000 to \$1,585,000 through December 15, 2037, interest rates vary from 4.00% to 4.5%	13,300,000	40,000
\$16,690,000 2016 General Obligation Bonds, serial bonds due in annual installments of \$5,000 to \$5,995,000 through November 15, 2025, interest rate of 4%	16,690,000	0
\$16,230,000 2016 Federally Taxable General Obligation Bonds, serial bonds due in annual installments of \$5,000 to \$900,000 through December 15, 2045, interest rates vary from 2.65% to 4%	16,230,000	5,000
	<u>119,430,000</u>	<u>11,900,000</u>
Total general obligation bonds payable		

\$4,975,756 2009 General Obligation Note, due in quarterly installments of \$83,000 to \$109,000 through September 1, 2024, interest rate of 3.73%	2,950,000	335,000
\$4,768,538 2010 General Obligation Note, due in annual installments of \$306,671 to \$381,744 through November 15, 2025, interest rates of 3.75% and 5.60%	3,089,123	306,671
\$11,685,000 2014 General Obligation Note, \$1,285,000 due November 15, 2017, interest rate of .83%	<u>1,285,000</u>	<u>1,285,000</u>
Total notes payable	<u>7,324,123</u>	<u>1,926,671</u>
Total general obligation bonds and notes payable	<u>\$ 126,754,123</u>	<u>\$ 13,826,671</u>

The annual requirements to amortize all general obligation bonds and notes payable as of December 31, 2016 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>	
2017	\$ 13,741,723	\$ 5,706,494	\$ 84,948	\$ 24,881	\$ 13,826,671	\$ 5,731,375	\$ 19,558,046
2018	12,365,104	5,032,834	87,392	22,441	12,452,496	5,055,275	17,507,771
2019	13,365,521	4,424,470	89,851	19,922	13,455,372	4,444,392	17,899,764
2020	14,054,976	3,770,658	92,324	17,325	14,147,300	3,787,983	17,935,283
2021	13,146,468	3,083,548	94,812	14,648	13,241,280	3,098,196	16,339,476
2022-2026	35,389,645	7,902,451	406,359	30,169	35,796,004	7,932,620	43,728,624
2027-2031	6,105,000	4,186,308			6,105,000	4,186,308	10,291,308
2032-2036	9,065,000	2,794,583			9,065,000	2,794,583	11,859,583
2037-2041	5,245,000	1,083,105			5,245,000	1,083,105	6,328,105
2042-2045	3,420,000	313,200			3,420,000	313,200	3,733,200
	<u>\$125,898,437</u>	<u>\$38,297,651</u>	<u>\$855,686</u>	<u>\$129,386</u>	<u>\$126,754,123</u>	<u>\$38,427,037</u>	<u>\$165,181,160</u>

On October 26, 2016, the County issued \$16,690,000 General Obligation Bonds, Series of 2016. The proceeds of these bonds will be used to provide funds for: (1) the costs relating to the acquisition, construction, equipping, and furnishing of various County facilities and infrastructure, (2) capitalizing interest on the Bonds, and (3) the costs of issuing the bonds.

On December 6, 2016, the County issued \$16,230,000 Federally Taxable General Obligation Bonds, Series of 2016A. The proceeds of these bonds financed the advance refunding of the County's outstanding Federally Taxable General Obligation Bonds, Series of 2007, including the cost of issuance of the 2016A bonds. The refunding resulted in a decrease in total debt service payments of \$968,455 and an economic gain (difference between the present value of the old and the new debt service payments) of \$3,025,179.

On December 28, 2016, the County defeased a portion of the outstanding General Obligation Bonds, Series of 2007, in the amount of \$3,645,000. The partial defeasance resulted in a decrease in total debt service payments of \$911,250, and an economic gain (difference between the present value of the old and the new debt service payments) of \$853,053.

On March 29, 2017, the County issued \$13,120,000 Guaranteed Authority Bonds, Series of 2017. The proceeds of these bonds financed the current refunding of the County's outstanding Guaranteed Authority General Obligation Bonds, Series of 2007, including the cost of issuance of the 2017 bonds. The refunding resulted in a decrease in total debt service payments of \$1,779,492 and an economic gain (difference between the present value of the old and the new debt service payments) of \$1,581,725.

On May 9, 2017, the County issued \$67,280,000 General Obligation Note, Series of 2017. The proceeds of this note financed the advance refunding of the County's outstanding General Obligation Bonds, Series of 2007, including the cost of issuance of the 2017 note. The refunding resulted in a decrease in total debt service payments of \$5,462,572 and an economic gain (difference between the present value of the old and the new debt service payments) of \$5,456,483.

Maturities are shown based on contractual obligations at 12/31/16 and have not been recast based on subsequent refunding transactions.

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, 2016 are as follows:

	Transfer In:					Total	
	General Fund	Mental Health Fund	Children and Youth Fund	Cedarbrook Fund	Other Governmental Funds		Internal Service Fund
Transfer Out:							
General Fund		\$ 423,833	\$ 3,973,778	\$ 8,011,644	\$ 19,931,538	\$ 2,475,000	\$ 34,815,793
Mental Health Fund	\$ 124,500				206,840		\$ 331,340
Health Choices Fund	145,700	143,858			675,914		\$ 965,472
Children and Youth Fund	124,500				488,364		\$ 612,864
Cedarbrook Fund	9,034,390				1,024,836		\$ 10,059,226
Bond Fund 2016					702,834		\$ 702,834
Other Governmental Funds	3,058,031			83,033			\$ 3,141,064
Enterprise Fund					118,777		\$ 118,777
Internal Service Fund	116,700						\$ 116,700
	<u>\$ 12,603,821</u>	<u>\$ 567,691</u>	<u>\$ 3,973,778</u>	<u>\$ 8,094,677</u>	<u>\$ 23,149,103</u>	<u>\$ 2,475,000</u>	

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

Governmental Activities:	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 12,240,981			\$ 12,240,981
Easements	20,002,890	\$ 426,655		20,429,545
Total capital assets, not being depreciated	<u>32,243,871</u>	<u>426,655</u>	<u>-</u>	<u>32,670,526</u>
Capital assets, being depreciated:				
Buildings and improvements	289,949,753	1,523,891		291,473,644
Machinery and equipment	53,406,803	1,816,272	\$ (156,605)	55,066,470
Furniture and fixtures	8,111,507	18,945		8,130,452
Infrastructure	39,453,969	5,063,038		44,517,007
Total capital assets, being depreciated	<u>390,922,032</u>	<u>8,422,146</u>	<u>(156,605)</u>	<u>399,187,573</u>
Total capital assets, historical cost	<u>423,165,903</u>	<u>8,848,801</u>	<u>(156,605)</u>	<u>431,858,099</u>
Less accumulated depreciation for:				
Buildings and improvements	(119,416,252)	(7,164,004)		(126,580,256)
Machinery and equipment	(48,284,177)	(1,858,074)	156,605	(49,985,646)
Furniture and fixtures	(6,681,533)	(448,546)		(7,130,079)
Infrastructure	(6,174,629)	(1,049,990)		(7,224,619)
Total accumulated depreciation	<u>(180,556,591)</u>	<u>(10,520,614)</u>	<u>156,605</u>	<u>(190,920,600)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 242,609,312</u>	<u>\$ (1,671,813)</u>	<u>\$ 0</u>	<u>\$ 240,937,499</u>
Business-type Activities:	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 236,533			\$ 236,533
Capital assets, being depreciated:				
Buildings and improvements	6,671,781			6,671,781
Machinery and equipment	391,093			391,093
Furniture and fixtures	40,983	22,904		63,887
Total capital assets, being depreciated	<u>7,103,857</u>	<u>22,904</u>	<u>-</u>	<u>7,126,761</u>
Total capital assets, historical cost	<u>7,340,390</u>	<u>22,904</u>	<u>-</u>	<u>7,363,294</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,948,415)	\$ (174,427)		(6,122,842)
Machinery and equipment	(370,713)	(10,716)		(381,429)
Furniture and fixtures	(34,283)	(3,195)		(37,478)
Total accumulated depreciation	<u>(6,353,411)</u>	<u>(188,338)</u>	<u>-</u>	<u>(6,541,749)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 986,979</u>	<u>\$ (165,434)</u>	<u>-</u>	<u>\$ 821,545</u>

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

	<u>Depreciation</u>
Governmental activities:	
Elected officials	\$ 270,759
Administration	3,013,681
Human services	109,350
General services	3,529,182
Nursing homes	1,441,771
Corrections	2,024,007
Courts	60,876
Development	<u>70,988</u>
 Total depreciation expense-governmental activities	 <u><u>\$10,520,614</u></u>
 Total depreciation expense - business-type activities - enterprise funds	 <u><u>\$ 188,338</u></u>

NOTE 6 EMPLOYEES' RETIREMENT FUND

Plan 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.

The Retirement Board of Trustees administers the Lehigh County Employees Pension Plan. Management of the Plan is vested in the Board, which consists of seven members – the County Executive, Executive Appointee, Chairman of Commissioners, Commissioners Representative, the County Controller, the Employee Representative, and the Retiree Representative.

Plan membership. For the 2016 measurement period, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	1,655
Inactive plan members entitled to but not yet receiving benefits	84
Active plan members	<u>1,879</u>
	<u><u>3,618</u></u>

Benefits provided. Lehigh County Employee’s Pension Plan provides retirement, disability, and death benefits. Retirement benefits for plan members are calculated as a percent of the member’s final 3-year average salary times the member’s years of service depending on class basis. Plan members with 20 years of service are eligible to retire at age 55. Plan members that have attained age 60 are eligible to retire. All plan members are eligible for disability benefits after 5 years of service if disabled while in service and unable to continue as a county employee. Disability retirement benefits are equal to 25% of final average salary at time of retirement. Death benefits for a member who dies with 10 years of service prior to retirement is the total present value of member’s retirement paid in a lump sum. A plan member who leaves County service with less than 5 years of service may withdraw his or her contributions, plus any accumulated interest.

On an ad hoc basis, cost-of-living adjustments to each member’s retirement allowance shall be reviewed at least once in every three years subsequent to the member’s retirement date. The adjustment, should the County elect to give one, is a percentage of the change in the Consumer Price Index.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation for the 2016 measurement period (see the discussion of the pension plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.4-6.4%
International equity	5.5-6.5
Fixed Income	1.3-3.3
Cash	0.0-1.0

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (i.e. no depletion date is projected to occur).

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.5 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
County's net pension liability	\$144,711,661	\$84,732,396	\$35,590,059

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report.

Contributions. An actuarially determined contribution is recommended by the plan actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance an unfunded accrued liability. For the 2016 measurement period, the active member contribution rate was 5.0 percent of annual pay, and the County average contribution rate was 10.76 percent of annual payroll.

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'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 EuroPacific Growth Fund, CBRE Clarion Securities, LLC, CoreCommodity Management CompleteCommodities Strategy Fund, C. S. McKee, LP, Edgar Lomax Company, Emerald Advisers, Inc., Gabelli Associates Limited II E, John Hancock Global Absolute Return Strategies Fund, Nuveen Preferred Securities Fund, Sustainable Growth Advisors, LP, Vanguard Developed Markets Index Fund, Vanguard Short Term Investment Grade Admiral Fund, Vanguard SCV Index Fund, Vanguard Institutional Index Fund, and Vittoria Offshore Fund, Ltd.

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's asset allocation policy for the 2016 measurement period:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	25-45%
International equity	5-25
Fixed income	20-45
Alternatives	0-20
Cash	0-15
Total	<u>100%</u>

Changes in the Net Pension Liability

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances as of December 31, 2015	\$ 526,857,210	\$ 446,677,870	\$ 80,179,340
Changes for the Year:			
Service Cost	10,874,331		10,874,331
Interest	38,883,632		38,883,632
Changes of Benefit Terms			-
Differences Between Expected and Actual Experience	(629,408)		(629,408)
Changes of Assumptions			-
Contributions-Employer		11,156,406	(11,156,406)
Contributions-Member		6,267,603	(6,267,603)
Net Investment Income		27,008,272	(27,008,272)
Benefit Payments, Including Refunds of Member Contributions	(31,495,895)	(31,495,895)	-
Plan Administrative Expenses		(36,875)	36,875
Other Changes		180,093	(180,093)
Net Changes	<u>17,632,660</u>	<u>13,079,604</u>	<u>4,553,056</u>
Balances as of December 31, 2016	<u>\$ 544,489,870</u>	<u>\$ 459,757,474</u>	<u>\$ 84,732,396</u>

Net Pension Liability

The County's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation for the 2016 measurement period, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2013 Annuitant and Non-Annuitant Mortality Tables for Males and Females with no projected improvement.

The actuarial assumptions used in the valuation for the 2016 measurement period were based on past experience under the plan and reasonable future expectations which represent our best estimate of anticipated experience under the plan. An actuarial experience study was performed during 2016; however, no modifications to assumptions were made as a result.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the 2016 measurement period, the County recognized pension expense of \$19,129,631 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,058,958	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	26,277,342	-
Total	<u>\$ 28,336,300</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	
2017	\$ 8,763,815
2018	8,763,815
2019	8,763,814
2020	1,597,514
2021	447,342

For the 2016 measurement period, the County had no outstanding amount of employer contribution to the pension plan required for the year ended December 31, 2016.

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, 2016, there were 695 retired participants in the plan and 50 potential participants who are currently active, for a total of 745 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 2016 was \$9,318,998 for the health and life insurance plan (\$9,186,077 for the health insurance and \$132,921 for the life insurance) using the implicit rate subsidy.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/2011	\$ 0	\$ 130,792,914	\$ 130,792,914	0%	NA	NA
1/1/2012	0	119,577,949	119,577,949	0%	NA	NA
1/1/2013	0	119,410,284	119,410,284	0%	NA	NA
1/1/2014	0	134,979,289	134,979,289	0%	NA	NA
1/1/2015	0	133,473,990	133,473,990	0%	NA	NA
1/1/2016	0	145,634,662	145,634,662	0%	NA	NA

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)
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
2013	8,050,091	1,336,520	1,823,232	16.29	7,563,379	7,069,460	493,919	30,194,370
2014	8,859,761	1,358,747	1,853,552	16.29	8,364,956	8,153,107	211,849	30,406,219
2015	8,859,761	1,368,280	1,866,557	16.29	8,361,484	8,823,760	(462,276)	29,943,944
2016	9,318,998	1,347,477	1,838,179	16.29	8,828,296	9,623,561	(795,265)	29,148,678

* 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
12/31/11	\$ 8,428,022	64.4%	\$ 28,373,517
12/31/12	7,585,124	82.5%	29,700,451
12/31/13	7,563,379	93.5%	30,194,370
12/31/14	8,364,956	97.5%	30,406,219
12/31/15	8,361,484	105.5%	29,943,943
12/31/16	8,828,296	109%	29,148,678

	Governmental Activities	Business-type Activities	Total Primary Government
Annual required contribution (ARC)	\$ 9,294,882	\$ 24,116	\$ 9,318,998
Interest on net OPEB Obligation	1,343,990	3,487	1,347,477
Adjustment to ARC	(1,833,422)	(4,757)	(1,838,179)
Annual OPEB Cost (Expense)	8,805,450	22,846	8,828,296
Contributions made	9,598,657	24,904	9,623,561
Decrease to net OPEB obligation	(793,207)	(2,058)	(795,265)
Net OPEB obligation-beginning of year	29,882,224	61,719	29,943,943
Net OPEB obligation-end of year	\$ 29,089,017	\$ 59,661	\$ 29,148,678

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 5.9% initially, reduced by decrements to an ultimate rate of 3.9%.

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 for 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 \$750,000 maximum retention per accident or employee.

The County records reported loss claims and claims incurred but not reported for worker's compensation based on estimates of independent actuaries. Such claims and estimates are not discounted. The following provides aggregate information for the current and prior year on worker's compensation liabilities, incurred claims and payments:

	<u>Change In Incurred Claims</u>			<u>Payments</u>		
	<u>January 1</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>December 31</u>
2015	\$ 2,808,483	\$ 1,208,008	\$ 3,003,416	\$ (210,372)	\$ (727,040)	\$ 6,082,495
2016	6,082,495	869,109	(1,066,514)	(174,726)	(733,613)	4,976,751

During 2016, there has not been a significant reduction in any insurance coverage and the amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

NOTE 9 RESTRICTED ASSETS

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

<u>General Fund</u>		
Cash restricted for temporarily held balances that are due other parties.		\$ 519,048
<u>Health Choices Fund</u>		
Cash restricted for claims payable.		6,200,000
<u>Other Governmental Funds</u>		
Cash restricted for temporarily held balances that are due to other parties.		250,627
Total Restricted Assets		<u>\$6,969,675</u>

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. \$ 26,275,498

Cedarbrook Fund

Committed fund balance

Amounts committed for the payment of nursing home expenditures. \$ 7,742,825

Bond Fund 2016

Restricted fund balance

Amounts restricted for the payment of capital project expenditures. \$ 17,900,940

Other Governmental Funds

Restricted fund balance amounts for:

The payment of specific grant and fee program expenditures. \$ 7,441,739
The payment of capital project expenditures. 9,429,170
The required worker's compensation self-insurance reserve. 4,976,752
Debt service payments. 755,646
\$ 22,603,307

Committed fund balance amounts for:

The payment of specific program expenditures. \$ 5,118,947
General insurance reserve. 350,000
\$ 5,468,947

Fiduciary Fund

Held in trust for pension benefits

Amounts restricted to Employee Retirement Plan use for future payment of member benefits. \$ 459,757,474

NOTE 11 CONSTRUCTION COMMITMENTS

The County has entered into a variety of construction commitments for bridge replacement and repair for the Coplay/Northampton Bridge. These commitments totaled \$25,409,647 at December 31, 2016 and 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, 2016 was \$3,075,000.

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, 2016 was \$24,891,090 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 TAX ABATEMENTS

The County of Lehigh provides tax abatements under the following five programs.

KOZ (Keystone Opportunity Zone) provides tax abatements giving property owners 100% exemption from real estate taxes for 10 years, in order to foster economic opportunities, stimulate industrial, commercial and residential improvements and prevent physical and infrastructure deterioration within the designated areas, as well as creating new employment and diminishing blight. Abatements are obtained through application by the property owner each year.

TIF (Tax Increment Financing Act) authorizes local taxing bodies to cooperate in providing financing for public facilities and residential, commercial and industrial development and revitalization in order to eliminate or prevent the development or spread of blight within the respective jurisdictions. The taxing authority retains the base amount and the remainder is submitted to the authority managing the TIF for the period of the agreement.

Clean and Green (Pennsylvania Farmland and Forest Land Assessment Act, Act 319) is a state law, authorized by the state constitution, which allows qualifying land that is devoted to agricultural use, agricultural reserve, and forest land use, to be assessed at a value for that use rather than Fair Market Value. The intent of the program is to encourage property owners to retain their land in agricultural, open space, or forest land use, by providing some real estate tax relief.

Act 515 (County program) requires that land be designated as farm, forest, water supply, or open space, to be assessed at a value for that use rather than Fair Market Value. The intent of the program is to encourage property owners to preserve the land within the county.

Act 4 authorizes a real estate tax millage rate freeze for eligible open space property in the County of Lehigh. The following categories of real property are hereby exempted from further millage increases:

- a. Real property in which the open space property interests have been acquired by a local government unit in accordance with the Open Space Lands legislation;
- b. Real property that is subject to an easement acquired in accordance with the Act of June 30, 1981 known as the “Agricultural Area Security Law”; and
- c. Real property from which the transferable development rights (TDR’s) have been transferred and retired by a local government unit without their development potential having occurred on other lands.

Information relevant to these programs for the year ended December 31, 2016 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Year</u>
KOZ	\$ 87,820
TIF	163,419
Clean and Green	2,331,987
Act 515	793,848
Act 4	8,345

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.

NOTE 16 SUBSEQUENT EVENTS

The County evaluated subsequent events through June 27, 2017. This is the date the financial statements were available to be issued. No material events subsequent to December 31, 2016, except as noted in Note 3, were noted.

COUNTY OF LEHIGH, PENNSYLVANIA
Schedule of County Contributions - Pension
Last 10 Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 4,979,055	\$ 3,475,185	\$ 8,046,712	\$ 9,632,648	\$ 10,428,623	\$ 11,076,512	\$ 12,372,805	\$ 10,265,444	\$ 10,711,406	\$ 11,156,406
Contributions in relation to the actuarially determined contribution	<u>4,979,055</u>	<u>3,475,185</u>	<u>8,046,712</u>	<u>9,632,648</u>	<u>10,428,623</u>	<u>11,076,512</u>	<u>12,372,805</u>	<u>10,265,444</u>	<u>10,711,406</u>	<u>11,156,406</u>
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered-employee payroll	\$ 93,591,263	\$ 98,169,076	\$ 104,774,896	\$ 108,008,635	\$ 109,572,720	\$ 109,197,576	\$ 108,693,112	\$ 108,186,851	\$ 102,995,368	\$ 103,664,965
Contributions as a percentage of covered-employee payroll	5.32%	3.54%	7.68%	8.92%	9.52%	10.14%	11.38%	9.49%	10.40%	10.76%

Notes to Schedule

Valuation date: January 1, 2007 January 1, 2008 January 1, 2009 January 1, 2010 January 1, 2011 January 1, 2012 January 1, 2013 January 1, 2014 January 1, 2015 January 1, 2016

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	25 years
Asset valuation method	Market value adjusted for unrecognized gains and losses from prior years
Inflation	3%
Salary increases	4.0% average, including inflation
Investment rate of return	7.5% net of pension plan investment expense, including inflation
Retirement age	Age 60 or 55 with 20 years service
Mortality	2013 RP Annuitant and Non-Annuitant Tables for males and females with no projected improvement

COUNTY OF LEHIGH, PENNSYLVANIA
Schedule of Changes in the County's Net
Pension Liability and Related Ratios

	(1) <u>2014</u>	(1) <u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 11,310,997	\$ 10,790,875	\$ 10,874,331
Interest	35,900,234	37,573,900	38,883,632
Changes of benefit terms	0	0	0
Differences between expected and actual experience	385,509	3,615,214	(629,408)
Changes of assumptions	0	0	0
Benefit payments, including refunds of member contributions	(27,050,997)	(29,127,092)	(31,495,895)
Other	_____	_____	_____
Net change in total pension liability	20,545,743	22,852,897	17,632,660
Total pension liability - beginning	<u>483,458,570</u>	<u>504,004,313</u>	<u>526,857,210</u>
Total pension liability - ending (a)	<u>\$ 504,004,313</u>	<u>\$ 526,857,210</u>	<u>\$ 544,489,870</u>
Plan fiduciary net position			
Contributions - employer	\$ 10,265,444	\$ 10,711,406	\$ 11,156,406
Contributions - member	6,294,826	6,138,640	6,267,603
Net investment income	25,991,473	(1,731,653)	27,008,272
Benefit payments, including refunds of member contributions	(27,050,997)	(29,127,092)	(31,495,895)
Administrative expense	(46,798)	(57,934)	(36,875)
Other	_____	_____	_____
Net change in plan fiduciary net position	15,477,106	(14,042,730)	13,079,604
Plan fiduciary net position - beginning	<u>\$ 445,243,494</u>	<u>\$ 460,720,600</u>	<u>\$ 446,677,870</u>
Plan fiduciary net position - ending (b)	<u>\$ 460,720,600</u>	<u>\$ 446,677,870</u>	<u>\$ 459,757,474</u>
County's net pension liability - ending (a) - (b)	<u>\$ 43,283,713</u>	<u>\$ 80,179,340</u>	<u>\$ 84,732,396</u>
Plan fiduciary net position as a percentage of the total pension liability	91.41%	84.78%	84.44%
Covered-employee payroll	\$ 108,186,851	\$ 102,995,368	\$ 103,664,965
County's net pension liability as a percentage of covered-employee payroll	40.01%	77.85%	81.74%

(1) Values have been restated as described in Footnote 1

COUNTY OF LEHIGH, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual - General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over (Under)
REVENUES				
Taxes	\$ 105,977,324	\$ 105,977,324	\$ 106,082,551	\$ 105,227
Grants and reimbursements	6,207,985	6,606,471	7,011,291	404,820
Departmental earnings	12,452,487	12,452,497	13,588,724	1,136,227
Costs and fines	4,031,002	4,031,002	4,024,284	(6,718)
Investment income	130,003	130,003	223,868	93,865
Rents	386,166	420,058	469,050	48,992
Payments in lieu of taxes	208,450	208,450	203,102	(5,348)
Other revenues	856,067	856,106	114,818	(741,288)
Total revenues	<u>130,249,484</u>	<u>130,681,911</u>	<u>131,717,688</u>	<u>1,035,777</u>
EXPENDITURES				
Current:				
Elected officials	21,046,706	21,585,401	21,204,111	(381,290)
County executive	3,559,351	3,712,952	3,776,722	63,770
Administration	23,086,091	23,755,079	23,450,341	(304,738)
Human services	213,116	213,116	211,936	(1,180)
General services	7,676,704	7,757,110	7,503,840	(253,270)
Corrections	32,317,086	32,470,075	31,099,605	(1,370,470)
Department of law	1,268,058	1,283,877	1,298,769	14,892
Courts	26,691,218	26,910,374	24,567,151	(2,343,223)
Development	355,995	478,216	477,851	(365)
Total expenditures	<u>116,214,325</u>	<u>118,166,200</u>	<u>113,590,326</u>	<u>(4,575,874)</u>
Excess of revenues over expenditures	<u>14,035,159</u>	<u>12,515,711</u>	<u>18,127,362</u>	<u>5,611,651</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	6,585,935	17,012,615	12,812,756	(4,199,859)
Indirect cost allocation in	15,123,307	15,479,101	15,460,809	(18,292)
Operating transfers out	(35,859,672)	(47,251,495)	(35,024,728)	12,226,767
Indirect cost allocation out	(6,357,544)	(6,357,544)	(6,357,544)	0
Total other financing sources (uses)	<u>(20,507,974)</u>	<u>(21,117,323)</u>	<u>(13,108,707)</u>	<u>8,008,616</u>
Net change in fund balances	(6,472,815)	(8,601,612)	5,018,655	13,620,267
Fund balance, January 1	<u>27,239,999</u>	<u>31,925,596</u>	<u>34,756,556</u>	<u>2,830,960</u>
Fund balance, December 31	<u>\$ 20,767,184</u>	<u>\$ 23,323,984</u>	<u>\$ 39,775,211</u>	<u>\$ 16,451,227</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Adjustments to Reconcile GAAP Basis to Budgetary Basis - General Fund
For the Year Ended December 31, 2016

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 2,766,005	\$ 39,446,264
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of unearned revenues) at December 31, 2015	5,089,304	
Accrued as receivables (net of unearned revenues) at December 31, 2016 but not recognized in budget	(3,652,416)	(3,652,416)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2015	(3,165,601)	
Accrued as liabilities at December 31, 2016 but not recognized in budget	3,981,363	3,981,363
Budgetary Basis	\$ 5,018,655	\$ 39,775,211

COUNTY OF LEHIGH, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual - Mental Health Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Taxes				
Grants and reimbursements	\$ 13,796,339	\$ 13,801,633	\$ 20,199,198	\$ 6,397,565
Departmental earnings	8,234	8,234	11,724	3,490
Costs and fines				
Investment income	10,651	10,651	17,015	6,364
Rents				
Payments in lieu of taxes				
Other revenues	2	2		(2)
Total revenues	<u>13,815,226</u>	<u>13,820,520</u>	<u>20,227,937</u>	<u>6,407,417</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	13,692,105	13,698,766	12,660,878	(1,037,888)
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>13,692,105</u>	<u>13,698,766</u>	<u>12,660,878</u>	<u>(1,037,888)</u>
Excess of revenues over (under) expenditures	<u>123,121</u>	<u>121,754</u>	<u>7,567,059</u>	<u>7,445,305</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	614,933	614,933	567,691	(47,242)
Indirect cost allocation in				
Operating transfers out	(364,964)	(364,964)	(331,340)	33,624
Indirect cost allocation out	(349,888)	(349,888)	(349,888)	0
Total other financing sources (uses)	<u>(99,919)</u>	<u>(99,919)</u>	<u>(113,537)</u>	<u>(13,618)</u>
Net change in fund balances	23,202	21,835	7,453,522	7,431,687
Fund balance, January 1	0	1,367	(1,715,227)	(1,716,594)
Fund balance, December 31	<u>\$ 23,202</u>	<u>\$ 23,202</u>	<u>\$ 5,738,295</u>	<u>\$ 5,715,093</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Adjustments to Reconcile GAAP Basis to Budgetary Basis - Mental Health Fund
For the Year Ended December 31, 2016

	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 unearned revenues) at December 31, 2015	5,200,946	
Accrued as receivables (net of unearned revenues) at December 31, 2016 but not recognized in budget	1,146,450	1,146,450
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2015	(3,485,719)	
Accrued as liabilities at December 31, 2016 but not recognized in budget	<u>4,591,846</u>	<u>4,591,846</u>
Budgetary Basis	<u><u>\$ 7,453,523</u></u>	<u><u>\$ 5,738,296</u></u>

COUNTY OF LEHIGH, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual - Health Choices Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Taxes				
Grants and reimbursements	\$ 82,814,904	\$ 82,814,904	\$ 86,381,053	\$ 3,566,149
Departmental earnings				
Costs and fines				
Investment income	99,102	99,102	134,281	35,179
Rents				
Payments in lieu of taxes				
Other revenues				
Total revenues	<u>82,914,006</u>	<u>82,914,006</u>	<u>86,515,334</u>	<u>3,601,328</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	85,000,582	85,596,343	81,517,657	(4,078,686)
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>85,000,582</u>	<u>85,596,343</u>	<u>81,517,657</u>	<u>(4,078,686)</u>
Excess of revenues over (under) expenditures	<u>(2,086,576)</u>	<u>(2,682,337)</u>	<u>4,997,677</u>	<u>7,680,014</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Indirect cost allocation in				
Operating transfers out	(1,018,455)	(1,020,700)	(965,472)	55,228
Indirect cost allocation out	(247,061)	(247,061)	(247,061)	0
Total other financing sources (uses)	<u>(1,265,516)</u>	<u>(1,267,761)</u>	<u>(1,212,533)</u>	<u>55,228</u>
Net change in fund balances	(3,352,092)	(3,950,098)	3,785,144	7,735,242
Fund balance, January 1	<u>32,200,000</u>	<u>32,583,593</u>	<u>30,157,253</u>	<u>(2,426,340)</u>
Fund balance, December 31	<u>\$ 28,847,908</u>	<u>\$ 28,633,495</u>	<u>\$ 33,942,397</u>	<u>\$ 5,308,902</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Adjustments to Reconcile GAAP Basis to Budgetary Basis - Health Choices Fund
For the Year Ended December 31, 2016

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ (3,114,197)	\$ 26,275,498
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of unearned revenues) at December 31, 2015	(658,213)	
Accrued as receivables (net of unearned revenues) at December 31, 2016 but not recognized in budget	230,279	230,279
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2015	(109,345)	
Accrued as liabilities at December 31, 2016 but not recognized in budget	7,436,620	7,436,620
Budgetary Basis	\$ 3,785,144	\$ 33,942,397

COUNTY OF LEHIGH, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual - Children and Youth Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Taxes				
Grants and reimbursements	\$ 22,562,088	\$ 23,443,088	\$ 28,657,294	\$ 5,214,206
Departmental earnings	2,000	2,000		(2,000)
Costs and fines				
Investment income	501	501	11,218	10,717
Rents				
Payments in lieu of taxes				
Other revenues	2,000	2,000	12,286	10,286
Total revenues	<u>22,566,589</u>	<u>23,447,589</u>	<u>28,680,798</u>	<u>5,233,209</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services	24,569,934	25,449,336	25,175,293	(274,043)
General services				
Nursing homes				
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>24,569,934</u>	<u>25,449,336</u>	<u>25,175,293</u>	<u>(274,043)</u>
Excess of revenues over (under) expenditures	<u>(2,003,345)</u>	<u>(2,001,747)</u>	<u>3,505,505</u>	<u>5,507,252</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,973,778	3,973,778	3,973,778	0
Indirect cost allocation in				
Operating transfers out	(697,983)	(711,633)	(612,864)	98,769
Indirect cost allocation out	<u>(1,216,461)</u>	<u>(1,216,461)</u>	<u>(1,216,461)</u>	<u>0</u>
Total other financing sources (uses)	<u>2,059,334</u>	<u>2,045,684</u>	<u>2,144,453</u>	<u>98,769</u>
Net change in fund balances	55,989	43,937	5,649,958	5,606,021
Fund balance, January 1	<u>0</u>	<u>12,052</u>	<u>(3,998,738)</u>	<u>(4,010,790)</u>
Fund balance, December 31	<u>\$ 55,989</u>	<u>\$ 55,989</u>	<u>\$ 1,651,220</u>	<u>\$ 1,595,231</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Adjustments to Reconcile GAAP Basis to Budgetary Basis - Children and Youth Fund
For the Year Ended December 31, 2016

	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 unearned revenues) at December 31, 2015	6,269,739	
Accrued as receivables (net of unearned revenues) at December 31, 2016 but not recognized in budget	(1,143,055)	(1,143,055)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2015	(2,271,001)	
Accrued as liabilities at December 31, 2016 but not recognized in budget	2,794,275	2,794,275
Budgetary Basis	\$ 5,649,958	\$ 1,651,220

COUNTY OF LEHIGH, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Cash Basis) and Actual - Cedarbrook Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Taxes				
Grants and reimbursements	\$ 57,424,207	\$ 64,343,208	\$ 65,458,278	\$ 1,115,070
Departmental earnings	7,377,561	7,377,561	7,749,478	371,917
Costs and fines				
Investment income	1,000	1,000	7,358	6,358
Rents				
Payments in lieu of taxes				
Other revenues	5,402	5,402	3,654	(1,748)
Total revenues	<u>64,808,170</u>	<u>71,727,171</u>	<u>73,218,768</u>	<u>1,491,597</u>
EXPENDITURES				
Current:				
Elected officials				
County executive				
Administration				
Human services				
General services				
Nursing homes	61,681,690	68,527,521	65,345,853	(3,181,668)
Corrections				
Department of law				
Courts				
Development				
Total expenditures	<u>61,681,690</u>	<u>68,527,521</u>	<u>65,345,853</u>	<u>(3,181,668)</u>
Excess of revenues over (under) expenditures	<u>3,126,480</u>	<u>3,199,650</u>	<u>7,872,915</u>	<u>4,673,265</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	3,816,585	11,836,263	8,094,677	(3,741,586)
Indirect cost allocation in				
Operating transfers out	(1,065,858)	(10,633,442)	(10,059,226)	574,216
Indirect cost allocation out	(5,045,164)	(5,045,164)	(5,045,164)	0
Total other financing sources (uses)	<u>(2,294,437)</u>	<u>(3,842,343)</u>	<u>(7,009,713)</u>	<u>(3,167,370)</u>
Net change in fund balances	832,043	(642,693)	863,202	1,505,895
Fund balance, January 1	0	912,770	912,770	0
Fund balance, December 31	<u>\$ 832,043</u>	<u>\$ 270,077</u>	<u>\$ 1,775,972</u>	<u>\$ 1,505,895</u>

COUNTY OF LEHIGH, PENNSYLVANIA
Adjustments to Reconcile GAAP Basis to Budgetary Basis - Cedarbrook Fund
For the Year Ended December 31, 2016

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 215,669	\$ 7,742,825
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of unearned revenues) at December 31, 2015	9,636,525	
Accrued as receivables (net of unearned revenues) at December 31, 2016 but not recognized in budget	(9,779,689)	(9,779,689)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2015	(3,022,139)	
Accrued as liabilities at December 31, 2016 but not recognized in budget	3,812,836	3,812,836
Budgetary Basis	\$ 863,202	\$ 1,775,972