

*County of Lehigh,
Pennsylvania*

December 31, 2001

*General Purpose Financial Statements
and Independent Auditors' Report*

COUNTY OF LEHIGH, PENNSYLVANIA

DECEMBER 31, 2001

CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Governmental Fund Types	6
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Funds	7
Statement of Changes in Plan Net Assets - Employees' Retirement Plan	8
Statement of Cash Flows – Proprietary Fund Types	9
Notes to General Purpose Financial Statements	10-28

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS REPORT

The Board of County Commissioners
County of Lehigh
Allentown, Pennsylvania

We have audited the accompanying general purpose financial statements of the COUNTY OF LEHIGH, PENNSYLVANIA, as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the COUNTY OF LEHIGH, PENNSYLVANIA. Our responsibility is to express an opinion on these general purpose 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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the COUNTY OF LEHIGH, PENNSYLVANIA, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the general purpose financial statements, in 2001 the COUNTY OF LEHIGH, PENNSYLVANIA adopted the provisions of Governmental Accounting Standard Board's Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and the provisions of Governmental Accounting Standards Board's Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues".

Harrisburg

Lehigh Valley

Blue Bell

<i>940 East Park Drive, Suite 200 Harrisburg, PA 17111</i>	<i>1101 West Hamilton Street, Room 255 Allentown, PA 18101-1043</i>	<i>650 Sentry Parkway, Suite One Blue Bell, PA 19422</i>
<i>717.561.9200 Fax 717.561.9202</i>	<i>610.871.5077 Fax 610.871.5078</i>	<i>610.941.2143 Fax 610.941.2123</i>

Zelenkofske Axelrod LLC

The Board of County Commissioners
County of Lehigh
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2002, on our consideration of the COUNTY OF LEHIGH, PENNSYLVANIA, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
June 14, 2002

COUNTY OF LEHIGH
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>ASSETS AND OTHER DEBITS</u>										
Cash - noninterest bearing	\$ 8,320	\$ 500					\$ 5,575			\$ 14,395
Certificates of deposit and other interest-bearing accounts	18,189,992	5,580,798		\$19,121,757	\$ 1,082,772	\$ 1,941,260	17,407,745			63,324,324
Investments	8,352,279		\$ 160,866				258,901,596			267,414,741
Receivables:										
Grants	16,020,093	4,435,270								20,455,363
Real estate taxes	2,870,109									2,870,109
Interest and dividends	23,278						570,314			593,592
Member contributions							51,019			51,019
Mortgage	1,356,620									1,356,620
Other	1,517,466	19,817		3,030,056	463		120,901			4,688,703
Due from other funds	3,928,377	57,037					60,352			4,045,766
Other	274,360	606,047			41,539					921,946
Property, plant and equipment					5,728,587	22,747,634		\$ 200,853,161		229,329,382
Accumulated depreciation					(4,040,956)	(3,321,743)				(7,362,699)
Amount available in Debt Service									\$ 133,000	133,000
Amount to be provided for retirement of general long-term obligations									149,310,769	149,310,769
TOTAL ASSETS AND OTHER DEBITS	<u>\$52,540,894</u>	<u>\$10,699,469</u>	<u>\$ 160,866</u>	<u>\$22,151,813</u>	<u>\$ 2,812,405</u>	<u>\$21,427,503</u>	<u>\$ 277,057,150</u>	<u>\$ 200,853,161</u>	<u>\$ 149,443,769</u>	<u>\$ 737,147,030</u>

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
DECEMBER 31, 2001

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>LIABILITIES, FUND EQUITY AND OTHER CREDITS</u>										
LIABILITIES										
Accounts payable	\$ 7,449,288	\$ 5,724,708	\$ 27,866	\$ 890,947	\$ 19,887	\$ 36,954	\$ 1,386,991			\$ 15,536,641
Deposits and agency amounts payable	622,898				15,075		7,219,775			7,857,748
Accrued payroll and payroll taxes	1,720,568	49,466			748	3,320				1,774,102
Accrued vacation and other compensation									\$ 7,595,596	7,595,596
Due to other governmental units	1,114,401						3,396,488			4,510,889
Due to other funds	117,389	771,919					3,156,458			4,045,766
Withdrawals payable							91,265			91,265
Pension benefits payable							386,026			386,026
Deferred revenues:										
Grants	1,817,165	3,218,084								5,035,249
Real estate taxes	2,414,432									2,414,432
Other	791,826			3,030,056	1,800					3,823,682
Accrued worker's compensation									4,868,717	4,868,717
General obligations bonds payable									133,666,331	133,666,331
Accreted interest obligation on capital appreciation bonds									3,313,125	3,313,125
TOTAL LIABILITIES	<u>16,047,967</u>	<u>9,764,177</u>	<u>27,866</u>	<u>3,921,003</u>	<u>37,510</u>	<u>40,274</u>	<u>15,637,003</u>		<u>149,443,769</u>	<u>194,919,569</u>
FUND EQUITY AND OTHER CREDITS										
Contributed capital					1,274,773	19,425,891				20,700,664
Investment in general fixed assets								\$ 200,853,161		200,853,161
Retained earnings					1,500,122	1,961,338				3,461,460
Fund balances:										
Reserved for:										
Encumbrances	877,119	169,278		945,675						1,992,072
Debt service			133,000							133,000
Employee pension benefits							261,412,423			261,412,423
Contingencies	2,750,000									2,750,000
Unreserved:										
Undesignated	<u>32,865,808</u>	<u>766,014</u>		<u>17,285,135</u>			<u>7,724</u>			<u>50,924,681</u>
TOTAL FUND EQUITY AND OTHER CREDITS	<u>36,492,927</u>	<u>935,292</u>	<u>133,000</u>	<u>18,230,810</u>	<u>2,774,895</u>	<u>21,387,229</u>	<u>261,420,147</u>	<u>200,853,161</u>		<u>542,227,461</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 52,540,894</u>	<u>\$ 10,699,469</u>	<u>\$ 160,866</u>	<u>\$ 22,151,813</u>	<u>\$ 2,812,405</u>	<u>\$ 21,427,503</u>	<u>\$ 277,057,150</u>	<u>\$ 200,853,161</u>	<u>\$ 149,443,769</u>	<u>\$ 737,147,030</u>

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>Total (Memorandum Only)</u>
REVENUES						
Taxes	\$ 55,926,919					\$ 55,926,919
Grants and reimbursements	85,831,301	\$ 44,775,625		\$ 301,987		130,908,913
Departmental earnings	22,728,046	62,096				22,790,142
Judicial costs and fines	2,651,687	40,530				2,692,217
Investment income	2,608,234	475,262		330,145	\$ 551	3,414,192
Rents	139,673	542				140,215
Other	497,752	45,758				543,510
Total Revenues	<u>170,383,612</u>	<u>45,399,813</u>		<u>632,132</u>	<u>551</u>	<u>216,416,108</u>
EXPENDITURES						
Current:						
Elected officials	8,754,006			133,549		8,887,555
County executive	2,317,470			19,841		2,337,311
Administration	27,744,936	542,757	\$ 393,233	5,386,070		34,066,996
Planning	1,982,034			989,654		2,971,688
Human services	42,131,028	43,485,905		119,418		85,736,351
Nursing homes	44,586,209		67,479	1,921,456		46,575,144
Corrections	18,642,314			242,174		18,884,488
Department of law	638,379					638,379
Courts	17,068,144	2,581,428		485,116		20,134,688
Development	3,435,314			117,334		3,552,648
Indirect cost allocation charges	(805,405)	781,373				(24,032)
Debt services:						
Principal retirement			5,870,049			5,870,049
Interest			6,719,196			6,719,196
Total Expenditures	<u>166,494,429</u>	<u>47,391,463</u>	<u>13,049,957</u>	<u>9,414,612</u>		<u>236,350,461</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,889,183</u>	<u>(1,991,650)</u>	<u>(13,049,957)</u>	<u>(8,782,480)</u>	<u>551</u>	<u>(19,934,353)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	5,824,321	2,579,374	12,719,367	30,364,700		51,487,762
Other proceeds			130,122			130,122
Operating transfers out	(18,255,457)	(1,037,864)	(24,295,395)	(5,777,145)		(49,365,861)
Proceeds of general obligation bonds			93,857,576			93,857,576
Payment to refunded bond escrow agent			(69,228,713)			(69,228,713)
Net Other Financing Sources (Uses)	<u>(12,431,136)</u>	<u>1,541,510</u>	<u>13,182,957</u>	<u>24,587,555</u>		<u>26,880,886</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(8,541,953)</u>	<u>(450,140)</u>	<u>133,000</u>	<u>15,805,075</u>	<u>551</u>	<u>6,946,533</u>
FUND BALANCES, JANUARY 1	<u>45,034,880</u>	<u>1,385,432</u>	<u>0</u>	<u>2,425,735</u>	<u>7,173</u>	<u>48,853,220</u>
FUND BALANCES, DECEMBER 31	<u>\$ 36,492,927</u>	<u>\$ 935,292</u>	<u>\$ 133,000</u>	<u>\$ 18,230,810</u>	<u>\$ 7,724</u>	<u>\$ 55,799,753</u>

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	General Fund			Special Revenue Fund			Debt Service Fund			Capital Projects Fund			Total Governmental Funds (Memorandum Only)			
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES																
Taxes	\$ 55,480,749	\$ 55,962,572	\$ 481,823										\$ 55,480,749	\$ 55,962,572	\$ 481,823	
Grants and reimbursements	93,745,141	85,868,977	(7,876,164)	\$ 46,504,152	\$ 43,802,472	\$ (2,701,680)				\$ 360,001	\$ 364,252	\$ 4,251	140,609,294	130,035,701	(10,573,593)	
Departmental earnings	22,309,329	23,045,941	736,612	80,578	77,063	(3,515)							22,389,907	23,123,004	733,097	
Judicial costs and fines	2,547,001	2,636,546	89,545	35,000	40,890	5,890							2,582,001	2,677,436	95,435	
Investment income	2,853,152	1,516,055	(1,337,097)	555,005	475,262	(79,743)				325,566	366,406	40,840	3,733,723	2,357,723	(1,376,000)	
Rents	122,501	138,461	15,960	500	550	50							123,001	139,011	16,010	
Payments in lieu of taxes	278,100	194,891	(83,209)										278,100	194,891	(83,209)	
Other revenues	479,150	327,344	(151,806)	5,003	41,121	36,118				1,750	1,749	(1)	485,903	370,214	(115,689)	
Total Revenues	<u>177,815,123</u>	<u>169,690,787</u>	<u>(8,124,336)</u>	<u>47,180,238</u>	<u>44,437,358</u>	<u>(2,742,880)</u>				<u>687,317</u>	<u>732,407</u>	<u>45,090</u>	<u>225,682,678</u>	<u>214,860,552</u>	<u>(10,822,126)</u>	
EXPENDITURES																
Elected officials	9,451,359	8,747,651	703,708							283,779	126,145	157,634	9,735,138	8,873,796	861,342	
County executive	2,352,689	2,298,215	54,474							19,841	19,841	0	2,372,530	2,318,056	54,474	
Administration	31,169,758	28,961,265	2,208,493	664,972	548,336	116,636				7,798,959	5,035,294	2,763,665	39,633,689	34,544,895	5,088,794	
Planning	2,123,185	1,900,302	222,883							935,060	935,055	5	3,058,245	2,835,357	222,888	
Human services	43,427,526	41,474,351	1,953,175	44,952,622	42,527,537	2,425,085				305,229	145,535	159,694	88,685,377	84,147,423	4,537,954	
Nursing homes	45,692,217	44,493,644	1,198,573							2,306,962	1,830,469	476,493	47,999,179	46,324,113	1,675,066	
Corrections	18,590,313	18,509,809	80,504							250,556	195,145	55,411	18,840,869	18,704,954	135,915	
Department of law	678,419	636,496	41,923										678,419	636,496	41,923	
Courts	17,017,721	16,486,003	531,718	2,743,508	2,585,439	158,069				814,086	330,923	483,163	20,575,315	19,402,365	1,172,950	
Development	4,054,196	3,454,878	599,318							205,832	131,468	74,364	4,260,028	3,586,346	673,682	
Debt service							\$ 14,052,836	\$ 13,022,091	\$ 1,030,745				14,052,836	13,022,091	1,030,745	
Total Expenditures	<u>174,557,383</u>	<u>166,962,614</u>	<u>7,594,769</u>	<u>48,361,102</u>	<u>45,661,312</u>	<u>2,699,790</u>	<u>14,052,836</u>	<u>13,022,091</u>	<u>1,030,745</u>	<u>12,920,304</u>	<u>8,749,875</u>	<u>4,170,429</u>	<u>249,891,625</u>	<u>234,395,892</u>	<u>15,495,733</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,257,740</u>	<u>2,728,173</u>	<u>(529,567)</u>	<u>(1,180,864)</u>	<u>(1,223,954)</u>	<u>(43,090)</u>	<u>(14,052,836)</u>	<u>(13,022,091)</u>	<u>1,030,745</u>	<u>(12,232,987)</u>	<u>(8,017,468)</u>	<u>4,215,519</u>	<u>(24,208,947)</u>	<u>(19,535,340)</u>	<u>4,673,607</u>	
OTHER FINANCING SOURCES (USES)																
Operating transfers in	20,611,664	5,953,361	(14,658,303)	2,877,802	2,574,960	(302,842)	13,719,371	12,719,367	(1,000,004)	33,025,015	30,364,700	(2,660,315)	70,233,852	51,612,388	(18,621,464)	
Indirect cost allocation	6,599,182	805,405	(5,793,777)										6,599,182	805,405	(5,793,777)	
Other proceeds							130,125	130,122	(3)				130,125	130,122	(3)	
Operating transfers out	(34,473,131)	(18,252,742)	16,220,389	(1,768,917)	(1,033,450)	735,467	(24,295,400)	(24,295,395)	5	(5,777,146)	(5,777,145)	1	(66,314,594)	(49,358,732)	16,955,862	
Indirect cost allocation	(5,774,345)		5,774,345	(787,622)	(781,373)	6,249							(6,561,967)	(781,373)	5,780,594	
Proceeds of general obligation bonds							93,857,580	93,857,576	(4)				93,857,580	93,857,576	(4)	
Payment to refunded escrow agent							(69,228,715)	(69,228,713)	2				(69,228,715)	(69,228,713)	2	
Total Other Financing Sources (Uses)	<u>(13,036,630)</u>	<u>(11,493,976)</u>	<u>1,542,654</u>	<u>321,263</u>	<u>760,137</u>	<u>438,874</u>	<u>14,182,961</u>	<u>13,182,957</u>	<u>(1,000,004)</u>	<u>27,247,869</u>	<u>24,587,555</u>	<u>(2,660,314)</u>	<u>28,715,463</u>	<u>27,036,673</u>	<u>(1,678,790)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(9,778,890)</u>	<u>(8,765,803)</u>	<u>1,013,087</u>	<u>(859,601)</u>	<u>(463,817)</u>	<u>395,784</u>	<u>130,125</u>	<u>160,866</u>	<u>30,741</u>	<u>15,014,882</u>	<u>16,570,087</u>	<u>1,555,205</u>	<u>4,506,516</u>	<u>7,501,333</u>	<u>2,994,817</u>	
FUND BALANCES, JANUARY 1	<u>33,416,658</u>	<u>33,937,277</u>	<u>520,619</u>	<u>5,908,521</u>	<u>5,329,328</u>	<u>(579,193)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,511,521</u>	<u>2,551,670</u>	<u>40,149</u>	<u>41,836,700</u>	<u>41,818,275</u>	<u>(18,425)</u>	
FUND BALANCES, DECEMBER 31	<u>\$ 23,637,768</u>	<u>\$ 25,171,474</u>	<u>\$ 1,533,706</u>	<u>\$ 5,048,920</u>	<u>\$ 4,865,511</u>	<u>\$ (183,409)</u>	<u>\$ 130,125</u>	<u>\$ 160,866</u>	<u>\$ 30,741</u>	<u>\$ 17,526,403</u>	<u>\$ 19,121,757</u>	<u>\$ 1,595,354</u>	<u>\$ 46,343,216</u>	<u>\$ 49,319,608</u>	<u>\$ 2,976,392</u>	

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS – PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total (Memorandum Only)</u>
OPERATING REVENUES			
Tenant rentals - Cedar View	\$ 668,047		\$ 668,047
Prison commissary revenues	788,418		788,418
Government center revenues		\$ 3,133,554	3,133,554
Interest and dividend income	<u>74,183</u>	<u>88,713</u>	<u>162,896</u>
Total Operating Revenues	<u>1,530,648</u>	<u>3,222,267</u>	<u>4,752,915</u>
OPERATING EXPENSES			
Administration and maintenance:			
Cedar View Apartments	541,878		541,878
Prison commissary	550,585		550,585
Government Center		1,025,694	1,025,694
Depreciation and amortization	202,371	831,317	1,033,688
Indirect cost allocation charges	<u>24,032</u>		<u>24,032</u>
Total Operating Expenses	<u>1,318,866</u>	<u>1,857,011</u>	<u>3,175,877</u>
OPERATING INCOME	211,782	1,365,256	1,577,038
OTHER FINANCING USES – INTERFUND TRANSFERS OUT	<u>(573,510)</u>	<u>(1,551,106)</u>	<u>(2,124,616)</u>
NET (LOSS)	(361,728)	(185,850)	(547,578)
TRANSFER OF DEPRECIATION TO CONTRIBUTION IN AID OF CONSTRUCTION	<u>156,674</u>	<u>831,317</u>	<u>987,991</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	(205,054)	645,467	440,413
RETAINED EARNINGS, JANUARY 1	<u>1,705,176</u>	<u>1,315,871</u>	<u>3,021,047</u>
RETAINED EARNINGS, DECEMBER 31	<u>\$ 1,500,122</u>	<u>\$ 1,961,338</u>	<u>\$ 3,461,460</u>

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
STATEMENT OF CHANGES IN PLAN NET ASSETS –
EMPLOYEES' RETIREMENT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2001

ADDITIONS

Contributions:	
Employee	\$ 4,480,667
Investment income:	
Interest and dividend income	<u>8,284,104</u>
Net appreciation (depreciation) in fair value of investments:	
United States government and municipal obligations	1,423,760
Corporate and foreign bonds	1,384,504
Broad market bond index	880,076
Domestic and foreign common stocks	(19,938,861)
Collateralized mortgages	<u>74,939</u>
	(16,175,582)
Less investment expenses	<u>(981,259)</u>
Net investment income	(8, 872,737)
Miscellaneous	<u>101</u>
Total Additions	<u>(4,391,969)</u>

DEDUCTIONS

Employee contributions refunded	954,195
Retirement benefits paid	9,072,059
Death benefits paid	607,313
Retiree medical benefits	1,500,000
Administrative expense	<u>31,943</u>
Total Deductions	<u>12,165,510</u>

NET DECREASE (16,557,479)

**NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS:**

Beginning of Year	<u>277,969,902</u>
End of Year	<u>\$ 261,412,423</u>

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Enterprise</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 211,782	\$ 1,365,256
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	202,371	831,317
Operating transfers out	(573,510)	(1,551,106)
Interest and dividends on investments	(74,183)	(88,713)
Change in assets and liabilities:		
Increase in other receivables	(76)	
Decrease in other assets	16,481	
Increase in due from other funds		(60,352)
Increase / (decrease) in accounts payable	(6,454)	5,701
Increase in deposits and agency amounts payable	75	
Increase in accrued payroll and payroll taxes	748	3,320
Increase in other deferred revenues	398	
Net Cash Provided by (Used for) Operating Activities	<u>(222,368)</u>	<u>505,423</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property, plant and equipment	<u>(147,511)</u>	
Net Cash Used for Capital and Related Financing Activities	<u>(147,511)</u>	
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	<u>74,183</u>	<u>88,713</u>
Net Cash Provided by Investing Activities	<u>74,183</u>	<u>88,713</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (295,696)	 594,136
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,378,468</u>	<u>1,347,124</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 1,082,772</u>	<u>\$ 1,941,260</u>

NONCASH SUPPLEMENTAL INFORMATION

Acquisition of Property, Plant and Equipment through Capital Contributions from the General Fund	\$ <u>2,715</u>
--	-----------------

The accompanying notes are an integral part of the general purpose financial statements.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 1 REPORTING ENTITY

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

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

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

As required by Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", these entities have been placed in one of the following categories:

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

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 1 REPORTING ENTITY (CONTINUED)

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 general purpose 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 2001, Lehigh County paid \$375,000 in support of this Commission. The County also supports the Lehigh and Northampton Transportation Authority, which owns and operates a bus transportation system. In 2001, Lehigh County provided \$290,000 in subsidies to this Authority. The County Executive appoints and the County Board of Commissioners approves one half of the governing board for each organization. These two organizations have been determined to be related organizations.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Accounting Structure

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The following funds and account groups are used to account for the activities of the County:

Governmental Fund Types

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, the court system and the administration of health, welfare and medical assistance programs (other than mental health/mental retardation and drug and alcohol) are accounted for in this Fund.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources required to be kept separate by law. Included are the following:

- The Liquid Fuels Tax Fund, which is used to account for state aid revenues required to be used primarily for building and improving local roads and bridges.
- The Mental Health/Mental Retardation Fund and Health Choices Fund, which are used to account for monies restricted by the Commonwealth of Pennsylvania for the County's Mental Health/Mental Retardation and Drug and Alcohol programs.
- The Domestic Relations IV D Fund, which is used to account for monies segregated by a court order for use by the Domestic Relations Office.

The Debt Service Fund is used to account for the payment of interest and principal on general long-term debt.

The Capital Projects Fund accounts for the financial resources stipulated to be used for the construction and/or reconstruction of County facilities (other than those financed by proprietary and trust funds).

Proprietary Fund Type

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

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Type (Continued)

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.

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

Enterprise Funds

- The Cedar View Apartments Fund is used to account for tenant rentals received from occupants of a 200-unit apartment building for the elderly and related maintenance expenses.
- The Prison Commissary Fund is used to account for income generated from prison commissary sales to be used within the correctional facilities.

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 Fund Types

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

Expendable Trust Funds are used to account for assets held by the County in a trustee capacity.

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

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Account Groups

The General Long-Term Obligations Account Group recognizes the general obligation debt and other long-term financial obligations of the County to be retired in future years. In addition, this account group includes the long-term obligations for unpaid vacation and other deferred compensation.

The General Fixed Assets Account Group is used to account for the fixed assets of the County excluding fixed assets of the Proprietary Funds.

Basis of Accounting

All of the County funds, other than the Employees' Retirement Fund and the Proprietary Funds, utilize the "modified accrual basis" of accounting. Under this basis, revenues, such as taxes, grants and reimbursements and departmental earnings, are recorded when susceptible to accrual (readily measurable and available as to amount and anticipated as being readily collectible). All other revenues are recognized only when received in cash. Expenditures, with the exception of interest on long-term debt, are accounted for on the accrual basis.

The Employees' Retirement Fund and the Proprietary Funds utilize the accrual basis of accounting.

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 of the year following 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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since the commitments will be honored through subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities.

Amount to be Provided for Long-Term Obligations

The amount recorded in this account represents an amount in excess of funds available in the Debt Service Fund to be provided from future taxes or other future general revenue to retire outstanding general long-term obligations.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Fixed Assets

General fixed assets that have been acquired for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized in the General Fixed Assets Account Group. All general fixed 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. Depreciation has not been provided and construction period interest has not been capitalized on general fixed assets.

Certain fixed assets, principally roads and bridges, have not been capitalized. Such assets normally are immovable and of value only to the County. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

Proprietary Funds Fixed Assets

Fixed assets owned by the Proprietary Funds are stated at cost or, if donated fixed assets, stated at the estimated fair market value at the time of contribution. Depreciation is recognized over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	15-40 years
Equipment	5-15 years
Furniture and fixtures	8-15 years

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, and therefore payable from future resources, is recorded in the General Long-Term Obligations Account Group.

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the Proprietary Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of certificates of deposit, interest-bearing accounts and noninterest-bearing accounts.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Transactions

As a result of its operations, 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.

Adoption of Governmental Accounting Standard Board Statements

The County adopted the provisions of GASB's Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB's Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues" in 2001. The adoption of these accounting standards did not affect amounts reported in the prior year's financial statements.

NOTE 3 BUDGETARY BASIS OF ACCOUNTING

The County accounts for certain governmental fund type transactions for budgetary purposes on a basis other than generally accepted accounting principles (GAAP). The amounts in the "Budget" column contained in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) - Governmental Fund Types are as originally adopted by the County of Lehigh Board of Commissioners or amended as permitted by Home Rule Charter. The amounts in the "Actual" column contained in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Governmental Fund Types are presented on the basis used by the County to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis are that revenues and other assets are recorded when cash is received (budget) as opposed to when susceptible to accrual (GAAP); and expenditures and other liabilities are recorded when payments are made (budget) as opposed to when liabilities are incurred (GAAP). Adjustments necessary to convert from the GAAP basis to the budgetary basis for 2001 are as shown on pages 17 through 19.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 3 BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

GENERAL FUND

	<u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u>	<u>Fund Balance at End of Year</u>
GAAP Basis	\$ (8,541,953)	\$ 36,492,927
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables (net of deferred revenues) at December 31, 2000	16,933,361	
Accrued as receivables (net of deferred revenues) at December 31, 2001 but not recognized in budget	(18,183,349)	(18,183,349)
Change in appreciation of investments	(1,104,800)	(2,156,648)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2000	(6,887,606)	
Accrued as liabilities at December 31, 2001 but not recognized in budget	<u>9,018,544</u>	<u>9,018,544</u>
Budgetary Basis	<u>\$ (8,765,803)</u>	<u>\$ 25,171,474</u>

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 3 BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

SPECIAL REVENUE FUND

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ (450,140)	\$ 935,292
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables at December 31, 2000	1,003,360	
Received in cash during the year but deferred at December 31, 2001	3,217,134	3,217,134
Accrued as deferred revenue at December 31, 2000 but not recognized in budget	(729,848)	
Accrued as receivables at December 31, 2001 but not recognized in budget	(4,455,017)	(4,455,017)
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2000	(5,848,752)	
Paid in cash during the year but deferred at December 31, 2001	(606,047)	(606,047)
Accrued as deferred expenditures at December 31, 2000 but not recognized in budget	1,631,344	
Accrued as liabilities at December 31, 2001 but not recognized in budget	<u>5,774,149</u>	<u>5,774,149</u>
Budgetary Basis	<u>\$ (463,817)</u>	<u>\$ 4,865,511</u>

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 3 BUDGETARY BASIS OF ACCOUNTING (CONTINUED)
DEBT SERVICE FUND

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis	\$ 133,000	\$ 133,000
Increase (Decrease):		
Due to expenditures:		
Accrued as liabilities at December 31, 2001 but not recognized in budget	27,866	27,866
Budgetary Basis	\$ 160,866	\$ 160,866

CAPITAL PROJECTS FUND

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	Fund Balance at End of Year
GAAP Basis \$	15,805,075 \$	18,230,810
Increase (Decrease):		
Due to revenues:		
Received in cash during the year but accrued as receivables at December 31, 2000	106,669	
Due to expenditures:		
Paid in cash during the year but accrued as liabilities at December 31, 2000	(232,604)	
Accrued as liabilities at December 31, 2001 but not recognized in budget	890,947	890,947
Budgetary Basis	\$ 16,570,087	\$ 19,121,757

NOTE 4 CASH AND INVESTMENTS

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet in the "Certificates of deposit and other interest-bearing accounts" caption. The County also invests in government obligations, corporate bonds,

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 4 CASH AND INVESTMENTS (CONTINUED)

common stocks, certificates of deposit and interest-bearing accounts such as money market funds.

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet in the "Certificates of deposit and other interest-bearing accounts" caption. The County also invests in government obligations, corporate bonds, common stocks, certificates of deposit and interest-bearing accounts such as money market funds.

Deposits

At year end, the carrying amount of the County's cash-noninterest bearing accounts was \$14,395. The carrying amount of the County's interest bearing accounts was \$63,324,324 and the bank balance of such accounts was \$67,381,886. In accordance with Pennsylvania statute, the bank balance is either entirely insured or collateralized by pledged pools of assets maintained by the financial institutions where the County's accounts are deposited.

Investments

Investments of governmental units are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Interest-bearing accounts can not be categorized due to the nature of the investment. Categorized investments at December 31, 2001 are as follows:

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>Uncategorized</u> <u>Total</u>
United States government and municipal bonds		\$ 41,249,613	\$ 41,249,613
Corporate and foreign bonds		23,653,845	23,653,845
Domestic and foreign common stocks		167,250,475	167,250,475
Collateralized mortgages		2,828,700	2,828,700
Broad market bond index		32,432,108	32,432,108
Interest-bearing accounts			\$ 61,625,954 61,625,954
Certificates of deposit	\$ 1,698,370		1,698,370
	<u>\$ 1,698,370</u>	<u>\$ 267,414,741</u>	<u>\$ 61,625,954</u> <u>\$ 330,739,065</u>

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 5 GENERAL FIXED ASSETS

The following is a summary of general fixed assets as of December 31, 2001.

	Balance at January 1, 2001	Additions	Deletions	Balance at December 31, 2001
Land	\$ 10,100,150		\$ (3,597)	\$ 10,096,553
Buildings and improvements	149,735,484	\$ 4,053,708	(901,844)	152,887,348
Equipment	33,683,628	2,803,817	(2,572,872)	33,914,573
Furniture and fixtures	2,277,016	222,357	(77,122)	2,422,251
Other	1,540,269	2,500	(10,333)	1,532,436
	<u>\$ 197,336,547</u>	<u>\$ 7,082,382</u>	<u>\$ (3,565,768)</u>	<u>\$ 200,853,161</u>

NOTE 6 CHANGES IN LONG-TERM OBLIGATIONS

During 2001, the County issued its General Obligation Bonds, Series 2001 in the par amount of \$88,210,000. The proceeds of the bonds provide funds for and towards the advance refunding of the General Obligation Bonds, Series 1996 A, B, and C, advance refunding a portion of the General Obligation Bonds, Series of 1993, financing capital improvements, and paying the costs and expenses related to the issuance of the Bonds. The refundings described above resulted in a reduction in future debt service payments in the amount of \$696,396 with a present value savings of \$1,720,259.

The following is a summary of changes in long-term obligations of the County for the year ended December 31, 2001:

	Balance at January 1, 2001	Additions	Retirements	Balance at December 31, 2001
Accrued vacation and other compensation	\$ 6,875,479	\$ 720,117		\$ 7,595,596
Due to other governmental units	216,205	6,394	\$ (222,599)	0
Accrued worker's compensation	4,670,460	1,333,361	(1,135,104)	4,868,717
General obligation bonds payable	115,676,380	88,210,000	(70,220,049)	133,666,331
Accreted interest obligation on capital appreciation bonds	3,782,634	384,225	(853,734)	3,313,125
	<u>\$ 131,221,158</u>	<u>\$ 90,654,097</u>	<u>\$ (72,431,486)</u>	<u>\$ 149,443,769</u>

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 6 CHANGES IN LONG-TERM OBLIGATIONS (CONTINUED)

The following is a summary of general obligation bonds payable of the County for the year ended December 31, 2001:

General Long-Term Obligations

\$28,376,380 1989 Refunding Bonds – Capital appreciation bonds due in annual installments of \$1,700,000 from October 15, 2002 through October 15, 2005 with approximate yields to maturity varying from 6.70% to 6.80%	2,581,331
\$99,505,000 1993 General Obligation Refunding Bonds, serial bonds due in annual installments of \$2,915,000 to \$4,925,000 through November 15, 2009, interest rates vary from 4.50% to 5.125%; term bonds due November 15, 2011 with maturity of \$5,100,000 in 2010 and \$2,615,000 in 2011 with an approximate yield to maturity of 5.40%	42,875,000
\$88,210,000 2001 General Obligation Bonds, serial bonds due in annual installments of \$830,000 to \$12,150,000 through November 15, 2016, interest rates vary from 3.00% to 5.00%	<u>88,210,000</u>
	<u>\$ 133,666,331</u>

The annual requirements to amortize all general obligation bonds payable as of December 31, 2001 are as follows:

<u>Fiscal Year</u>	<u>General Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 6,421,720	\$ 7,165,230	\$ 13,586,950
2003	6,421,451	7,163,268	13,584,719
2004	6,629,106	6,956,700	13,585,806
2005	6,859,054	6,726,152	13,585,206
2006	8,290,000	5,294,121	13,584,121
Thereafter	<u>99,045,000</u>	<u>27,485,622</u>	<u>126,530,622</u>
	<u>\$ 133,666,331</u>	<u>\$ 60,791,093</u>	<u>\$ 194,457,424</u>

NOTE 7 DEFEASED DEBT

Details of debt defeased by the County of Lehigh in prior years for which bonds remain outstanding at December 31, 2001 are as follows:

<u>General Obligation Bond Issue and Final Maturity</u>	<u>Interest Rate</u>	<u>Amount Outstanding at December 31, 2001</u>
Series A of 1989	6.00%	\$ 11,870,000
Series of 1991	6.70% - 6.90%	\$ 22,815,000
Series of 1993	4.50% - 5.125%	\$24,905,000
Series of 1996	4.80% - 5.70%	\$39,445,000

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 7 **DEFEASED DEBT (CONTINUED)**

These bonds, which were previously issued by the County, are now payable, as to principal and interest thereon, from proceeds of irrevocably pledged assets, primarily U.S. Government investments. The investments are held by the Refunded Bond Trustee, and principal and interest payments are scheduled to coincide with Trustee cash requirements for debt service.

Under the defeasance indenture, the principal and interest on the defeased bonds are to be paid as such become due, to and including their final maturity date or call date.

The bonds described above and the investments pledged for their redemption are not recognized on the County's balance sheet in accordance with the terms of the Indentures of Defeasance.

NOTE 8 **EMPLOYEES' RETIREMENT FUND AND OTHER
POSTEMPLOYMENT BENEFITS**

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

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

Contributions to the Plan made by the County and its employees are accumulated and transferred to First Union Bank, the Plan's custodian. The Plan is administered by the Retirement Board of Trustees, which invests plan assets based on recommendations from Delaware International Advisers LTD, Emerald Advisers Inc., C. S. McKee & Co. Inc., Mellon Equity Associates LLP, Miller Anderson & Sherrerd LLP, Montag & Caldwell Incorporated, and Bankers Trust Company, Inc., the Plan's investment advisors.

An employee becomes fully vested after eight years of service. Normal retirement age is attained when an employee reaches age 60, regardless of years of service or age 55 and completion of 20 years of service.

An employee's normal retirement benefit is the total of the employee's annuity based upon the actuarial value of the employee's accumulated contributions and a County annuity equal to the product of the final average salary (highest three years), applicable class rate, and length of membership service in

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

**NOTE 8 EMPLOYEES' RETIREMENT FUND AND OTHER
POSTEMPLOYMENT BENEFITS (CONTINUED)**

each class. The County annuity will be increased in instances where a member has prior service credits. Disability retirement benefits are determined by using 25% of the final average salary for the three highest years.

Funding Policy - The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the aggregate actuarial cost method of funding.

Employee contributions must be 5% of their salary. Each member may voluntarily contribute up to an additional 10% above the minimum. Employee contributions earn interest at 5.5% a year, which is the maximum rate allowable by law.

Annual Pension Cost and Net Pension Obligation - The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2001. Significant actuarial assumptions used include:

Actuarial Cost Method	Aggregate **
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return*	7½%
Projected Salary Increases*	4½%
* Includes Inflation at	3%

** Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress. Separate determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used.

The net pension obligations and annual pension costs were \$0 for each of the fiscal years ended December 31, 2001, 2000, and 1999.

In addition to the pension benefits previously described, the County provides other postemployment health care benefits in accordance with County personnel policies to employees and their spouses provided that the employee--

- Is classified as a retiree under the requirements of the State of Pennsylvania Act Number 96 of 1971
- Was employed by the County prior to January 1, 1987
- Was in the continuous employment of the County from January 1, 1987 until the date of retirement

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

**NOTE 8 EMPLOYEES' RETIREMENT FUND AND OTHER
POSTEMPLOYMENT BENEFITS (CONTINUED)**

- Received fully paid County health care benefits or an equivalent contribution to a Health Maintenance Organization program for the five years preceding the date of retirement
- Selected options of the Plan other than the "Vesting Option", as defined in the Plan, prior to receiving pension benefits or the "Lump Sum Distribution" option upon retirement

At December 31, 2001, 695 retirees plus their spouses met these eligibility requirements. Costs for such benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2001, expenditures of approximately \$3,030,635 were recognized for such postemployment benefits.

NOTE 9 SEGMENTS OF PROPRIETARY FUND TYPES

The Proprietary Fund Types included in the accompanying general purpose financial statements comprise three separate funds for which segment data for the year ended December 31, 2001 is as follows:

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Cedar View Apartments</u>	<u>Prison Commissary</u>	<u>Total</u>	<u>Government Center Fund</u>
Operating revenues	\$ 729,715	\$ 800,933	\$ 1,530,648	\$ 3,222,267
Operating expenses:				
Depreciation and amortization	198,012	4,359	202,371	831,317
Other	565,910	550,585	1,116,495	1,025,694
Total	<u>763,922</u>	<u>554,944</u>	<u>1,318,866</u>	<u>1,857,011</u>
Operating Income (Loss)	<u>\$ (34,207)</u>	<u>\$ 245,989</u>	<u>\$ 211,782</u>	<u>\$ 1,365,256</u>
Net Income (Loss)	<u>\$ (374,891)</u>	<u>\$ 13,163</u>	<u>\$ (361,728)</u>	<u>\$ (185,850)</u>
Fixed assets:				
Land and improvements	\$ 299,792		\$ 299,792	
Buildings and improvements	4,958,994		4,958,994	\$ 20,657,657
Equipment	345,828	\$ 20,401	366,229	1,021,483
Furniture and fixtures	99,164	4,408	103,572	1,068,494
Total	5,703,778	24,809	5,728,587	22,747,634
Less accumulated depreciation	<u>(4,028,249)</u>	<u>(12,707)</u>	<u>(4,040,956)</u>	<u>(3,321,743)</u>
Total Fixed Assets	<u>\$1,675,529</u>	<u>\$ 12,102</u>	<u>\$ 1,687,631</u>	<u>\$ 19,425,891</u>
Total Assets	<u>\$2,503,686</u>	<u>\$ 308,719</u>	<u>\$ 2,812,405</u>	<u>\$ 21,427,503</u>
Total Liabilities	<u>\$ 37,510</u>	<u>\$ 0</u>	<u>\$ 37,510</u>	<u>\$ 40,274</u>
Fund equity:				
Contributed capital:				
Balance at beginning of year	\$1,368,717	\$ 60,015	\$ 1,428,732	\$ 20,257,208
Capital contributions for the year		2,715	2,715	
Accumulated depreciation transferred to contributions in aid of construction	<u>(152,315)</u>	<u>(4,359)</u>	<u>(156,674)</u>	<u>(831,317)</u>
Balance at End of Year	<u>\$1,216,402</u>	<u>\$ 58,371</u>	<u>\$1,274,773</u>	<u>\$ 19,425,891</u>
Retained Earnings	<u>\$1,249,774</u>	<u>\$ 250,348</u>	<u>\$1,500,122</u>	<u>\$ 1,961,338</u>

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 10 RISK MANAGEMENT

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

General Liability and Property Damage

The County is insured for general liability and property damage losses. The property damage and time element deductible is \$50,000 during the policy term. Losses totaling less than \$50,000 but more than \$2,500 shall apply to an annual aggregate deductible of \$50,000. Once this aggregate of \$50,000 has been reached, the deductible for the next loss shall be \$10,000.

Worker's Compensation

The County is self-insured for worker's compensation losses. Excessive losses are covered by commercial insurance with a \$300,000 maximum retention per accident or employee.

Reserve balances are based on the requirements of Government Accounting Standards Board Statement Number 10. The County records reported loss claims and claims incurred but not reported for worker's compensation based on estimates of independent actuaries. Such claims and estimates are not discounted. The following provides aggregate information for the current year on worker's compensation liabilities, incurred claims and payments:

	<u>Change In</u> <u>Incurred Claims</u>			<u>Payments</u>		
	<u>January 1</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>December 31</u>
2000	\$ 4,659,459	\$ 950,000	\$ 416,006	\$ (128,027)	\$ (1,226,978)	\$ 4,670,460
2001	\$ 4,670,460	\$ 1,033,315	\$ 300,046	\$ (69,871)	\$ (1,065,233)	\$ 4,868,717

Healthcare

The County provides several fixed-rated premium based health care plans. The plans offered include health maintenance organizations, point of service, preferred provider organizations, and traditional programs. The traditional programs are insured for the risk of excessive loss associated with major medical costs of active employees and retirees through Capital Blue Cross. This policy permits a \$10,000 annual major medical maximum and a \$50,000 lifetime major medical maximum for employees and a \$10,000 annual major medical maximum and \$25,000 lifetime major medical maximum for retirees.

During 2001, 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.

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 11 LITIGATION AND CONTINGENCIES

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.

Contingencies

On November 30, 2000, the Lehigh County Retirement Board ("Board") passed a resolution that states under County Pension Law, the County of Lehigh ("County") has the legal authority to grant to retired employees insurance and other similar benefits that the County has granted to other County employees. The resolution was based on a legal opinion obtained which indicates it is lawful for the County to pay retiree health benefits from the excess assets of the County's Employee Retirement Fund ("Fund"). Therefore, the resolution calls for a portion of the assets in the County Annuity Reserve Account of the Fund amounting to \$1,250,000 be transferred to a separate medical plan account within the Fund for the purpose of paying the actual costs of health benefit liabilities for County retirees employed prior to January 1, 1987 who met all other requirements for obtaining retiree health benefits. The resolution was to be effective January 1, 2000 and each year thereafter unless the Board takes further action. Finally, the resolution indicates that the physical transfer of assets is subject to the receipt of a favorable ruling by the Internal Revenue Service ("IRS") concerning the continued tax-favored treatment of retirees and current County employees who make contributions to, and receive benefits from, the Fund. The current IRS ruling is pending. The Board passed a resolution during 2001 that increased the cumulative allocation total through December 31, 2001 to \$2,750,000.

Based on this resolution, the County has recorded a liability in the Fund in the amount of \$2,750,000. A corresponding receivable and reduction in expenditure was recorded in the County's General Fund. Because this resolution is contingent upon a favorable IRS ruling, the County has reserved General Fund fund balance equal to the amount of the planned transfer which has been reflected in the General Fund as of and for the year ended December 31, 2001.

Based on the outcome of the IRS ruling and the ultimate transfer of funds, certain pension plan amendments may be required to be made resulting in additional pension benefit obligations of the Fund. These may include a one-time immediate vesting of all eligible employees of the Retirement Plan and inclusion of post-employment health care benefits within the Retirement Plan's actuarial calculation of pension benefit obligations. Because the County has utilized the January 1, 2001 actuarial calculation for disclosure purposes discussed in Note 8, the pension benefit obligation identified by that valuation may significantly change based on the IRS ruling and the criteria which may be required to be applied to the Retirement Plan and subsequent benefits and related pension benefit obligations. The ultimate changes to the Plan and related obligations of the Plan as a result of the Board resolution can not be presently determined based on the

COUNTY OF LEHIGH
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 11 LITIGATION AND CONTINGENCIES (CONTINUED)

pending IRS ruling. However, management believes the Retirement Plan, based on any favorable ruling by the IRS, will continue to have pension assets in excess of pension benefit obligations and any necessary Plan amendments will not result in an unfunded accrued actuarial liability.

In the event of an unfavorable IRS ruling, the County resolution states the transfer of assets for post-employment retiree health benefits shall be null and void.