

## Report of Independent Auditors

County Commissioners  
County of Cumberland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Cumberland (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units and the Cumberland Area Economic Development Corporation, a blended component unit, which represents 1% or less of the revenues/additions, net assets and total assets of the governmental activities and the aggregate remaining fund information. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion herein, insofar as it relates to the amounts included for these component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Cumberland County Industrial Development Authority and the Cumberland Area Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the County's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2005, and the respective changes in financial position and, where applicable, cash

flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2006 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and Schedule of Employer's Contributions on pages 13 through 26 and 82 through 91 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ernst & Young LLP*

May 16, 2006

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

#### Management's Discussion and Analysis

As management of Cumberland County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 thru 5 of this report.

#### Financial Highlights

- The assets of Cumberland County exceeded its liabilities at the close of the most recent fiscal year by \$39,482,023 (*net assets*). Of this amount, \$15,303,311 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,941,329
- As of the close of the current calendar year, Cumberland County's governmental funds reported combined ending fund balances of \$24,729,043, an increase of \$2,466,806 in comparison to the prior year. Approximately 84 percent of the total amount (\$20,826,324) is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$13,871,446. Of this balance approximately \$3,135,000 is designated for capital projects, farmland preservation, prison canteen, and future debt service payments.
- Cumberland County's total debt increased by \$490,942. The major changes in debt were: the issuance of a 2005 general obligation note which refinanced the 2000 GOB, refinanced the last payment of the 2001 GOB, and included funding for the new energy efficiency program.
- The County successfully implemented three major projects: an energy efficiency program that will save the County substantial energy costs, a consolidation of its central booking centers, and the implementation of the payroll and human resource module of its integrated Enterprise Resource Program (ERP) information system.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years (e.g., uncollected taxes and earned but unused vacation leave).

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, roads and bridge maintenance, solid waste management, human services, culture and recreation, conservation, community redevelopment and housing, economic development and assistance and interest expense. The business-type activities include the County nursing home, the Early Learning Center, emergency telephone, transportation, and the hazardous materials fund.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also its component units, the Cumberland County Conservation District and the Cumberland County Industrial Development Authority, both of which are legally separate from the County. Financial information for these component units is reported separately from the financial information presented for the primary government itself. Refer to Note 1 for information on how to obtain separately issued financial statements for component units.

The government-wide financial statements can be found on pages 28 and 29 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are reconciled to *governmental activities* on pages 31 and 33 of this report.

The County maintains twenty-one governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, children and youth fund, mental health/mental retardation fund, and the Cumberland County HealthChoices fund, which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 30 and 32 of this report.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

**Proprietary funds.** The County maintains two different types of proprietary funds. *Enterprise funds* report the same functions presented as *business-type activities* in the government-wide financial statements only in more detail. The County uses enterprise funds to account for the County nursing home, the Early Learning Center, emergency telephone, transportation, and the hazardous materials fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its workers' compensation fund. Because workers' compensation services principally benefit business-type functions, they have been included within *business-type activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 34 thru 37 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. The accounting used for the Pension Trust is much like that used for proprietary funds; however, the agency funds have no measurement focus.

The basic fiduciary fund financial statements can be found on pages 38 and 39 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42 thru 80 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules. The County adopts annual appropriated budgets for its funds. Budgetary comparison schedules have been provided for the major governmental funds to demonstrate compliance with this budget. Required supplementary information can be found on pages 82 thru 91 of this report.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

#### **Government-wide Financial Analysis**

Over time, net assets may serve as a useful indicator of government's financial position. In the case of Cumberland County, assets exceeded liabilities by \$39,482,023 at the close of the most recent calendar year.

#### Cumberland County's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets:</b>						
Current assets	\$40,906,154	32,660,874	10,524,176	9,357,230	51,430,330	42,018,104
Capital assets	24,305,774	40,729,144	22,205,656	22,813,152	46,511,430	63,542,296
Other assets	43,832	473,380	-	-	43,832	473,380
<b>Total assets</b>	<b>65,255,760</b>	<b>73,863,398</b>	<b>32,729,832</b>	<b>32,170,382</b>	<b>97,985,592</b>	<b>106,033,780</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	16,463,725	15,505,658	26,488,169	26,441,464	42,951,894	41,947,122
Other liabilities	13,778,241	8,743,527	1,773,434	1,330,909	15,551,675	10,074,436
<b>Total liabilities</b>	<b>30,241,966</b>	<b>24,249,185</b>	<b>28,261,603</b>	<b>27,772,373</b>	<b>58,503,569</b>	<b>52,021,558</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	16,289,475	29,749,495	(857,994)	1,310,858	15,431,481	31,060,353
Restricted	8,747,231	-	-	-	8,747,231	-
Unrestricted	9,977,088	19,864,718	5,326,223	3,087,151	15,303,311	22,951,869
<b>Total net assets</b>	<b>\$35,013,794</b>	<b>49,614,213</b>	<b>4,468,229</b>	<b>4,398,009</b>	<b>39,482,023</b>	<b>54,012,222</b>

The largest portion of Cumberland County's net assets (39 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. In 2005 capital assets were restated; see note 6 for further restatement disclosure. Cumberland County uses these assets to provide services to citizens; consequently, these services are *not* available for future spending. Although Cumberland County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Twenty-two percent of the county's net assets are legally restricted (\$8,747,231). The remaining balance of *unrestricted net assets* (\$15,303,311) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Cumberland County is able to report positive fund balances in all three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities, with the exception of emergency telephone. As part of the 800 MHz project, emergency telephone is purchasing radio equipment for different Cumberland County municipalities and County departments. Therefore, the assets purchased with the bond proceeds are not on the balance sheet of emergency telephone, offsetting the liability and causing a negative fund balance. The same held true for the prior fiscal year.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

#### Cumberland County's Change in Net Assets

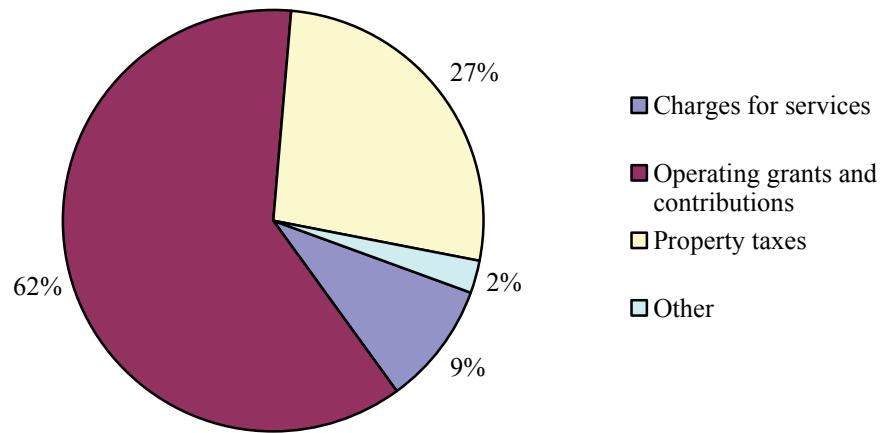
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 10,972,682	10,623,157	26,236,968	24,897,305	37,209,650	35,520,462
Operating grants and contributions	71,186,501	63,123,923	807,327	670,155	71,993,828	63,794,078
Capital grants and contributions	55,124	1,854,364	752,984	2,471	808,108	1,856,835
General revenues:						
Property taxes	30,954,255	28,798,851	-	-	30,954,255	28,798,851
Other taxes	1,584,279	1,519,027	-	-	1,584,279	1,519,027
Grants and contribution restricted to specific programs	-	-	-	-	-	-
Unrestricted investment earnings	1,183,081	481,053	222,448	67,680	1,405,529	548,733
<b>Total revenues</b>	<b>115,935,922</b>	<b>106,400,375</b>	<b>28,019,727</b>	<b>25,637,611</b>	<b>143,955,649</b>	<b>132,037,986</b>
<b>Expenses:</b>						
General government	23,843,051	22,570,583	-	-	23,843,051	22,570,583
Public safety	14,342,433	13,630,646	-	-	14,342,433	13,630,646
Roads and bridge maintenance	1,125,543	651,093	-	-	1,125,543	651,093
Solid waste management	568,828	561,480	-	-	568,828	561,480
Human services	67,510,045	59,475,773	-	-	67,510,045	59,475,773
Culture and recreation	87,920	90,075	-	-	87,920	90,075
Conservation	418,545	381,570	-	-	418,545	381,570
Community redevelopment and housing	266,693	387,356	-	-	266,693	387,356
Economic development and assistance	2,380,343	2,244,217	-	-	2,380,343	2,244,217
Interest on long-term debt	470,589	482,719	-	-	470,589	482,719
Indirect expenses	(363,597)	(334,128)	363,597	334,128	-	-
Claremont Nursing and Rehabilitation Center	-	-	20,509,268	19,494,048	20,509,268	19,494,048
Early Learning Center	-	-	407,655	359,885	407,655	359,885
Emergency telephone	-	-	6,342,878	4,221,403	6,342,878	4,221,403
Hazardous materials protection	-	-	177,854	135,713	177,854	135,713
Transportation services	-	-	1,722,524	1,647,303	1,722,524	1,647,303
Workers' compensation	-	-	840,151	675,000	840,151	675,000
<b>Total expenses</b>	<b>110,650,393</b>	<b>100,141,384</b>	<b>30,363,927</b>	<b>26,867,480</b>	<b>141,014,320</b>	<b>127,008,864</b>
Increase (decrease) in net assets before transfers	5,285,529	6,258,991	(2,344,200)	(1,229,869)	2,941,329	5,029,122
Transfers	(2,414,420)	(806,108)	2,414,420	806,108	-	-
Increase (decrease) in net assets	2,871,109	5,452,883	70,220	(423,761)	2,941,329	5,029,122
<b>Net assets, beginning, as restated</b>	<b>32,142,685</b>	<b>44,161,330</b>	<b>4,398,009</b>	<b>4,821,770</b>	<b>36,540,694</b>	<b>48,983,100</b>
<b>Net assets, ending</b>	<b>\$ 35,013,794</b>	<b>49,614,213</b>	<b>4,468,229</b>	<b>4,398,009</b>	<b>39,482,023</b>	<b>54,012,222</b>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

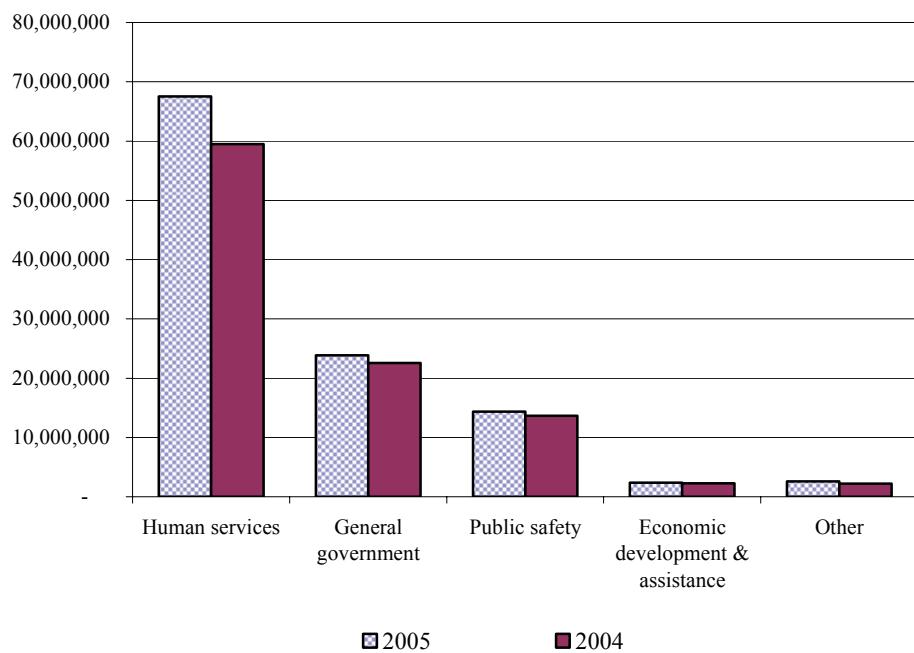
### Management's Discussion and Analysis

**Governmental activities.** The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2005:

#### Revenues by Source-Governmental Activities



#### Expense Comparison by Activity - Governmental Activities



## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### **Management's Discussion and Analysis**

Governmental activities increased Cumberland County's net assets by \$2,871,109. The majority of this increase is caused by cost saving measures and planned major projects that were either postponed or financed with sources other than property tax as originally planned. The primary changes in revenues and expenses are:

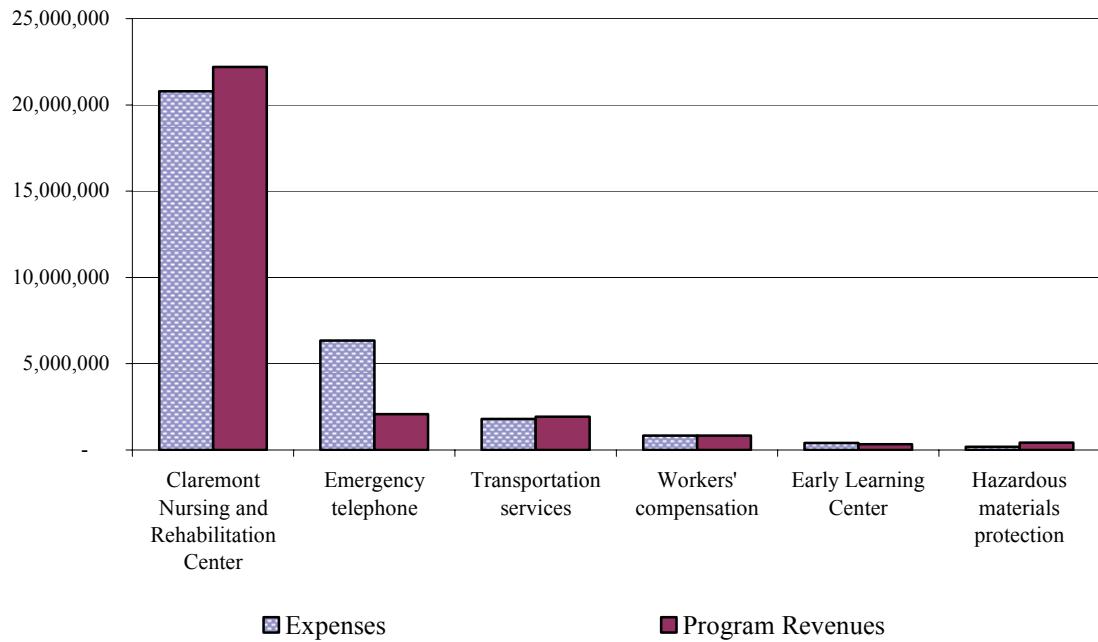
- Property tax increased by \$2,155,404 (7.5 percent). This growth is due to a 5 percent millage increase, new construction, and renovations of existing property.
- Operating grants and contributions increased \$8,062,578 due mainly to three major grants:
  - Children and youth's grants increased \$1,259,823 mainly due to the increased Act 148 certified allocation and a prior year settlement.
  - HealthChoices increased \$4,848,232 due to increased capitation rates, the institution of an MCO assessment tax, and an increase of member days.
  - Exit 44's funding increased \$474,450 due to entering Phase II of the project.
- Unrestricted investment earnings increased \$702,028 due to increased interest rates and increased cash balances.
- General government increased \$1,272,468 mainly due to minor changes in several departments and natural growth in salaries, benefits, and operating expenses.
- Human services increased \$8,034,272 mainly due to increased grant funding see above.
- Public safety increased \$711,787 due to two main reasons. Probation salaries and benefits increased \$400,000 due to the new union contract and medical catastrophic costs increased \$150,000 at the prison. The probation salaries included retroactive pay from 2004.
- Roads and bridge maintenance increased \$474,450 due to Phase II of the Exit 44 project.
- Transfers increased \$1,608,312 mainly due to an increase in emergency telephone subsidy and a one time transfer from Claremont in 2004. Emergency telephone's surcharge revenue has been steadily declining over the past several years because of home phones being replaced with cell phones and expenses have been steadily increasing.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

**Business-type activities.** The following charts graphically depict the sources of revenue and functional expenses of business-type activities for the fiscal year ended December 31, 2005:

#### Expenses and Program Revenues - Business-type Activities



Business-type activities increased Cumberland County's net assets by \$70,220. The primary changes in revenues and expenses are:

- Charges for services increased \$1,339,663. The majority of the increase is due to rate increases at the Claremont Nursing and Rehabilitation Center. The average rate increase was \$11.50 for medical assistance and \$20 for private pay.
- Capital grants have increased by \$750,513.
  - Transportation's capital grants increased by \$383,369 due to the timing of the purchase of buses.
  - Hazmat's capital grants increased by \$361,514 for the purchase of a hazmat vehicle and trailer.
- Claremont's expenses increased by \$1,015,220 due to normal increases in operating expenses.
- Emergency telephone's expenses increased \$2,121,475 mainly due to the purchase of radios for county municipalities as part of the 800 Mhz project.
- Transfers increased \$1,608,312 mainly due to a one time transfer from Claremont in 2004 net of an increase in emergency telephone subsidy. Emergency telephone's surcharge revenue has been steadily declining over the past several years because of home phones being replaced with cell phones and expenses have been steadily increasing.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

#### Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the year, Cumberland County's governmental funds reported combined ending fund balances of \$24,729,043, and an increase of \$2,466,806 in comparison to the prior year. Approximately 84 percent of the total amount (\$20,826,324) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to:

- open space/farmland preservation (\$3,064,440)
- offender supervision (\$441,319)
- automation (\$89,538)
- Register of Wills Act 34 (\$57,075)
- prepaid items (\$192,970)
- criminal investigation (\$57,377)

The general fund is the chief operating fund of Cumberland County. At the end of the year, unreserved fund balance of the general fund was \$13,871,446 while total fund balance was \$17,774,165. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund expenditures. Unreserved fund balance represents 39 percent of total general fund expenditures, while total fund balance represents 50 percent of general fund expenditures.

The fund balance of Cumberland County's general fund increased by \$1,934,119 during the current year. Key factors in this growth are as follows:

- The County was able to continue to achieve savings through improved line item management with the new software system.
- A number of budgeted projects and major purchases were either postponed or financed with grants or bond proceeds instead of tax revenue as originally planned.
- Central Booking was consolidated into one booking center at the prison.

**Proprietary funds.** Cumberland County's proprietary funds provide the same type of information found in the government-wide financials statements, but in more detail. Other factors concerning the finances of these funds have already been addressed in the discussion of Cumberland County's business-type activities.

Workers' Compensation is presented as an internal service fund in this section and a business-type activity in the government-wide statements.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Management's Discussion and Analysis

#### **General Fund Budgetary Highlights**

Under Pennsylvania law, the Board of Commissioners has the authority and responsibility for managing the County budget. In this role, the Commissioners must assess the changing needs of the community and make periodic changes in the budget to meet these needs.

For accounting purposes, the level of budgetary control is maintained at the fund level. The County finance office, under the authority of the Commissioners, exercises day-to-day responsibility for assuring that departments operate within the confines of approved budgets according to County fiscal policies.

The Commissioners formally approve all budget revisions that change the bottom line of a fund during bi-weekly Commissioner's hearings. The County finance office approves all other budget revisions except adjustments transferring budget from one operating line item to another within a department (approved by department head).

The most common budget adjustments are budget transfers from one operating line item to another within a department. Other budget adjustments include transferring budget from contingency, capital, and salary and benefit budget lines.

The funds and classifications in the CAFR's basic financial statements are presented differently from the funds and classifications in the budget. The explanations below are based on the budgetary presentation. For example, Stop Grant is a separate fund in the budget document; however, Stop Grant in the CAFR is part of the general fund's basic financial statement.

The general fund budgeted revenues increased \$1,055,644. The following is a list of the adjustments:

Farmland preservation grant	\$469,502
BRAC Army Heritage grant	\$250,000
Grants	\$228,645
Prison canteen transportation	\$100,000
Miscellaneous	\$ 7,497

The actual revenues received were \$217,542 over budget most of which is attributable to county charges (\$291,547), interest (\$175,181), and real estate taxes (\$130,019) with exception of grants which decreased \$484,665. The Recorder of Deeds office received more revenues than budgeted because mortgage interest rates remained lower than anticipated, investment interest rates increased, and continued growth and development in Cumberland County.

The general fund budgeted expenditures (including other financing sources/uses) increased \$1,560,355 for various miscellaneous adjustments mostly related to new grants, farmland preservation, prison work release transportation, and prison treatment.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

Actual general fund expenditures (including other financing sources/uses) were under the final budget by \$4,196,360. The major items under budget were:

Farmland preservation	\$936,455
Professional services	\$367,426
Contingencies	\$512,267
Salaries and benefits	\$270,474
Communications	\$312,535
Children & youth subsidy	\$268,792
Capital	\$262,201
Office supplies	\$107,052
Hazmat subsidy	\$184,357
Payments to agencies	\$198,079
Central booking subsidy	\$157,144
Insurance	\$126,469

There are several major reasons for the under budget situation. The County budgeted for several major projects that were not started or were financed with alternative funding sources (bond and grants). Insurances (property and health) were negotiated to lower rates. The required retirement contribution was lower than the original projection. Central booking was consolidated to one center at the prison. Finally, the contingency budget was not utilized.

### **Capital Asset and Debt Administration**

**Capital Assets.** Cumberland County's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounted to \$46,511,430 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements other than buildings, machinery and equipment, bridges, construction in progress and agricultural easements. The total decrease in Cumberland County's investment in capital assets for the current year was 27% percent (a 40% decrease for governmental activities and a 3% decrease for business-type activities).

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

#### Cumberland County's Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,673,028	1,673,028	-	-	1,673,028	1,673,028
Buildings and systems	13,063,812	12,175,755	16,114,656	16,652,421	29,178,468	28,828,176
Improvements other than buildings	2,645	4,249	337,861	359,279	340,506	363,528
Machinery and equipment	5,188,017	4,411,168	5,753,139	5,705,643	10,941,156	10,116,811
Bridges	1,411,794	1,526,090	-	-	1,411,794	1,526,090
Construction in progress	464,318	1,307,569	-	95,809	464,318	1,403,378
Agricultural easements	2,502,160	19,631,285	-	-	2,502,160	19,631,285
Total	\$24,305,774	40,729,144	22,205,656	22,813,152	46,511,430	63,542,296

Major capital asset events during the current fiscal year included the following:

- The County removed \$17,471,528 of agricultural easements that belong to the Commonwealth of Pennsylvania in title. Please refer to Note 6 for additional information.
- The County purchased three agricultural easements for a total of \$342,403.
- The County invested in an energy usage study and implemented equipment upgrades within all County owned buildings for a total cost of \$1,918,527.
- Computer hardware of \$556,363 was purchased to supplement the County's technological needs.
- The County acquired a \$361,307 hazmat response vehicle and trailer.

Additional information on Cumberland County's capital assets can be found in Note 5 of this report.

**Debt Administration.** At the end of the current fiscal year, Cumberland County had net outstanding bonded debt of \$21,328,643. The County's net general obligation notes total \$15,938,812. This debt is backed by the full faith and credit of the government. Cumberland County does not have any special assessment debt or revenue bonds.

The County's net outstanding general obligation bonds and notes at December 31, 2005 and 2004 were:

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 10,940,590	12,012,526	10,388,053	24,048,987	21,328,643	36,061,513
General obligation notes	2,416,707	715,000	13,522,105	-	15,938,812	715,000
Total	\$ 13,357,297	12,727,526	23,910,158	24,048,987	37,267,455	36,776,513

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

Cumberland County's bonded debt increased by \$490,942. In 2005, Cumberland County issued a \$15,650,000 general obligation note. Of this amount, \$2,035,000 is for the County's energy conservation program. The remaining \$13,615,000 refinanced the 2000 general obligation bond and the last payment of the 2001 general obligation bond. The refinancing reduced the debt service payments by \$200,770 and had an economic loss of \$1,344,346. The economic loss was calculated based on interest rates on the date of the new note issue (June 1, 2005). Although an economic loss is showing, the County is expecting interest rates to increase in the future and create an economic gain. The original debt had balloon principal payments and the new debt is structured with equal principal and interest payments. Principal payments offset the increase by \$1,750,000. There was no other bonded debt activity during 2005.

Cumberland County maintains a "AA" rating from Standard and Poor's for general obligation debt.

The current debt limitation for Cumberland County is \$339,134,942 which is significantly in excess of Cumberland County's outstanding general obligation debt.

In 2006, Cumberland County plans to issue \$9.9 million in general obligation bonds to finance several major projects including design phase of prison renovations, farmland preservation, voting machines, and building consolidation.

Additional information on Cumberland County's long-term debt can be found in Note 9 on pages 72 to 74 of this report.

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

Residents of Cumberland County benefited from one of the lowest unemployment levels in the Commonwealth throughout 2005. This recurring trend is expected to continue. Cumberland County's December unemployment rate was 3.0% while the statewide and national rates were 4.4% and 4.9%, respectively. Neighboring counties also have unemployment rates significantly below the statewide and national average. County residents also benefit from an array of employment opportunities based in the private sector as well as local, state, and federal governments.

Cumberland County continues to enjoy a diverse tax base with little concentration in any one taxpayer. The top ten taxpayers represent 2.332% of assessed values as of December 31, 2005.

Highlights of the County's initiatives in the 2006 budget include:

- Plan renovation process for the County prison.
- Implement new voting system.
- Farmland preservation/open space.
- Continue performance management process.

The general fund ended 2005 with an unreserved/undesignated fund balance of \$10.7 million. At the end of 2006 the County is estimating an unreserved/undesignated fund balance of about \$10.3 million.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Management's Discussion and Analysis

#### **Requests for Information**

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Cumberland County Controller, 1 Courthouse Square, Carlisle, PA 17013.

## **Basic Financial Statements**

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Net Assets

December 31, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 23,721,227	6,324,834	30,046,061	68,616	58,336
Investments	3,487,939	—	3,487,939	205,000	153,397
Receivables (net of allowance):					
Taxes	1,364,915	—	1,364,915	—	—
Due from other governments	5,228,348	33,292	5,261,640	75,960	—
Accounts receivable	1,207,418	3,133,821	4,341,239	—	—
Court costs and fines receivable	1,568,238	—	1,568,238	—	—
Note receivable	—	—	—	—	267,217
Due from component units	11,355	—	11,355	—	—
Internal balances	131,527	(131,527)	—	—	—
Prepaid items	214,929	116,527	331,456	—	—
Deferred charges	173,358	319,833	493,191	—	—
Restricted assets:					
Cash and cash equivalents	—	115,195	115,195	—	—
Investments	3,796,900	612,201	4,409,101	—	—
Capital assets (net of accumulated depreciation):					
Land	1,673,028	—	1,673,028	—	—
Buildings and systems	13,063,812	16,114,656	29,178,468	—	—
Improvements other than buildings	2,645	337,861	340,506	—	—
Machinery and equipment	5,188,017	5,753,139	10,941,156	24,116	—
Bridges	1,411,794	—	1,411,794	—	—
Construction in progress	464,318	—	464,318	—	—
Agricultural easements	2,502,160	—	2,502,160	—	—
Other assets	43,832	—	43,832	—	—
Total assets	65,255,760	32,729,832	97,985,592	373,692	478,950
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	7,226,603	624,961	7,851,564	2,954	—
Accrued payroll	1,010,119	254,477	1,264,596	6,174	—
Due to primary government	—	—	—	11,355	—
Due to other governments	554,315	—	554,315	—	—
Accrued interest payable	103,745	108,285	212,030	—	—
Unearned revenues	3,967,242	543,911	4,511,153	39,835	—
Funds held as fiduciary	916,217	241,800	1,158,017	—	—
Noncurrent liabilities:					
Due in less than one year:					
Bond arbitrage payable	—	61,053	61,053	—	—
Capital lease payable	18,928	11,761	30,689	—	—
General obligation bonds payable	1,292,893	397,107	1,690,000	—	—
General obligation notes payable	116,858	653,142	770,000	—	—
Sick and vacation accrual	148,846	76,465	225,311	2,537	—
Workers' compensation claims payable	—	611,582	611,582	—	—
Due in more than one year:					
Bond arbitrage payable	—	—	—	—	—
Capital lease payable	22,621	8,378	30,999	—	—
General obligation bonds payable	9,647,697	9,990,946	19,638,643	—	—
General obligation notes payable	2,299,849	12,868,963	15,168,812	—	—
Sick and vacation accrual	2,916,033	803,565	3,719,598	44,214	—
Workers' compensation claims payable	—	1,005,207	1,005,207	—	—
Total liabilities	30,241,966	28,261,603	58,503,569	107,069	—
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	16,289,475	(857,994)	15,431,481	24,116	—
Restricted net assets	8,747,231	—	8,747,231	—	—
Unrestricted	9,977,088	5,326,223	15,303,311	242,507	478,950
Total net assets	\$ 35,013,794	4,468,229	39,482,023	266,623	478,950

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**  
 Statement of Activities  
 For the year ended December 31, 2005

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets				Component Units	
	Expenses	Indirect Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Conservation District	Industrial Development Authority	
						Governmental Activities	Business-type Activities				
<b>Primary government:</b>											
Governmental activities:											
General government	\$ 23,843,051	(970,651)	6,715,978	2,705,612	40,927	(13,409,883)	—	(13,409,883)	—	—	
Public safety	14,342,433	—	2,595,561	1,765,008	14,197	(9,967,667)	—	(9,967,667)	—	—	
Roads and bridge maintenance	1,125,543	16,549	4,597	1,107,146	—	(30,349)	—	(30,349)	—	—	
Solid waste management	568,828	37,013	91,690	127,997	—	(386,154)	—	(386,154)	—	—	
Human services:											
Mental health/mental retardation	27,253,708	173,024	110,629	26,481,739	—	(834,364)	—	(834,364)	—	—	
HealthChoices	18,079,337	—	—	18,069,073	—	(10,264)	—	(10,264)	—	—	
Children and youth	10,821,115	163,762	406,278	8,907,164	—	(1,671,435)	—	(1,671,435)	—	—	
Food and shelter	3,995,395	—	254,617	3,870,511	—	129,733	—	129,733	—	—	
Office of aging	3,391,598	129,624	138,660	3,185,237	—	(197,325)	—	(197,325)	—	—	
Other	3,968,892	87,082	322,347	3,538,699	—	(194,928)	—	(194,928)	—	—	
Culture and recreation	87,920	—	9,466	—	—	(78,454)	—	(78,454)	—	—	
Conservation	418,545	—	14,233	27,421	—	(376,891)	—	(376,891)	—	—	
Community redevelopment and housing	266,693	—	305,800	—	—	39,107	—	39,107	—	—	
Economic development and assistance	2,380,343	—	2,826	1,400,894	—	(976,623)	—	(976,623)	—	—	
Interest on long-term debt	470,589	—	—	—	—	(470,589)	—	(470,589)	—	—	
Total governmental activities	<b>111,013,990</b>	<b>(363,597)</b>	<b>10,972,682</b>	<b>71,186,501</b>	<b>55,124</b>	<b>(28,436,086)</b>	<b>—</b>	<b>(28,436,086)</b>	<b>—</b>	<b>—</b>	
Business-type activities:											
County nursing home	20,509,268	282,679	22,182,781	12,449	—	—	1,403,283	1,403,283	—	—	
Early Learning Center	407,655	—	321,779	7,975	5,630	—	(72,271)	(72,271)	—	—	
Emergency telephone	6,342,878	—	2,016,473	53,540	—	—	(4,272,865)	(4,272,865)	—	—	
Hazardous materials protection	177,854	—	49,880	21,553	361,514	—	255,093	255,093	—	—	
Transportation services	1,722,524	80,918	825,904	711,810	385,840	—	120,112	120,112	—	—	
Workers' compensation	840,151	—	840,151	—	—	—	—	—	—	—	
Total business-type activities	<b>30,000,330</b>	<b>363,597</b>	<b>26,236,968</b>	<b>807,327</b>	<b>752,984</b>	<b>—</b>	<b>(2,566,648)</b>	<b>(2,566,648)</b>	<b>—</b>	<b>—</b>	
Total primary government	<b>\$ 141,014,320</b>	<b>—</b>	<b>37,209,650</b>	<b>71,993,828</b>	<b>808,108</b>	<b>(28,436,086)</b>	<b>(2,566,648)</b>	<b>(31,002,734)</b>	<b>—</b>	<b>—</b>	
<b>Component units:</b>											
Conservation District	\$ 597,766	—	256,463	345,740	—	—	—	—	4,437	—	
Industrial Development Authority	36,741	—	8,976	48,243	—	—	—	—	—	20,478	
Total component units	<b>\$ 634,507</b>	<b>—</b>	<b>265,439</b>	<b>393,983</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,437</b>	<b>20,478</b>	
General revenues:											
Real estate taxes						30,954,255	—	30,954,255	—	—	
Per capita taxes						660,792	—	660,792	—	—	
Hotel taxes						923,487	—	923,487	—	—	
Grants and contributions not restricted to specific programs						—	—	—	5,661	—	
Unrestricted investment earnings						1,183,081	222,448	1,405,529	—	3,627	
Transfers						(2,414,420)	2,414,420	—	—	—	
Total general revenues and transfers						<b>31,307,195</b>	<b>2,636,868</b>	<b>33,944,063</b>	<b>5,661</b>	<b>3,627</b>	
Change in net assets						2,871,109	70,220	2,941,329	10,098	24,105	
Net assets-beginning, as restated						<b>32,142,685</b>	<b>4,398,009</b>	<b>36,540,694</b>	<b>256,525</b>	<b>454,845</b>	
Net assets-ending						<b>\$ 35,013,794</b>	<b>4,468,229</b>	<b>39,482,023</b>	<b>266,623</b>	<b>478,950</b>	

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Balance Sheet  
Governmental Funds  
December 31, 2005

	<b>General Fund</b>	<b>Mental Health/ Mental Retardation</b>	<b>Children and Youth</b>	<b>HealthChoices- Cumberland County</b>	<b>Other Non-major Funds</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 14,572,302	6,014,220	300	83,331	3,051,073	23,721,226
Investments	289,474	—	—	—	3,198,464	3,487,938
Receivables (net of allowance):						
Taxes	1,364,915	—	—	—	—	1,364,915
Due from other governments	417,227	160,983	2,991,364	—	1,658,776	5,228,350
Accounts receivable	278,479	281,060	—	84,409	563,471	1,207,419
Due from other funds	1,525,295	598,410	—	—	1,744,610	3,868,315
Due from component unit	11,267	—	—	—	—	11,267
Prepaid items	192,970	473	—	—	21,487	214,930
Restricted investments	3,117,394	—	—	—	679,506	3,796,900
Other assets	43,822	—	—	—	—	43,822
Total assets	<b>\$ 21,813,145</b>	<b>7,055,146</b>	<b>2,991,664</b>	<b>167,740</b>	<b>10,917,387</b>	<b>42,945,082</b>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable	\$ 1,123,423	3,810,609	742,881	84,708	1,463,458	7,225,079
Accrued liabilities and withholdings	845,448	36,088	41,286	—	87,297	1,010,119
Due to other funds	—	—	2,196,251	19,362	1,463,522	3,679,135
Due to other governments	554,315	—	—	—	—	554,315
Deferred taxes	862,404	—	—	—	—	862,404
Deferred revenue	204,686	3,208,449	11,246	63,670	479,192	3,967,243
Other liabilities	1,527	—	—	—	—	1,527
Funds held as fiduciary	447,177	—	—	—	469,040	916,217
Total liabilities	<b>4,038,980</b>	<b>7,055,146</b>	<b>2,991,664</b>	<b>167,740</b>	<b>3,962,509</b>	<b>18,216,039</b>
Fund balances:						
Reserved for:						
Prepaid items	192,970	—	—	—	—	192,970
Clerk of Court automation	27,132	—	—	—	—	27,132
Prothonotary automation	53,756	—	—	—	—	53,756
Register of Wills automation	8,650	—	—	—	—	8,650
Register of Wills-Act 34	57,075	—	—	—	—	57,075
Open space/farmland preservation	3,064,440	—	—	—	—	3,064,440
Offenders' supervision	441,319	—	—	—	—	441,319
Criminal investigation	57,377	—	—	—	—	57,377
Unreserved:						
Designated:						
Future capital projects	2,500,000	—	—	—	—	2,500,000
Future debt service arbitrage payments	225,000	—	—	—	—	225,000
Prison canteen	107,155	—	—	—	—	107,155
Farmland preservation	302,773	—	—	—	—	302,773
Undesignated, reported in:						
General fund	10,736,518	—	—	—	—	10,736,518
Special revenue funds	—	—	—	—	6,458,575	6,458,575
Capital project funds	—	—	—	—	496,303	496,303
Total fund balances	<b>17,774,165</b>	<b">—</b">	<b>—</b>	<b>—</b>	<b">6,954,878</b">	<b>24,729,043</b>
Total liabilities and fund balances	<b>\$ 21,813,145</b>	<b>7,055,146</b>	<b>2,991,664</b>	<b>167,740</b>	<b>10,917,387</b>	<b>42,945,082</b>

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

December 31, 2005

Total fund balances-governmental funds	\$ 24,729,043
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	24,305,774
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	2,430,643
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This balance constitutes the balance of deferred bond issue costs.	215,676
Internal service fund used by management to charge the costs of the self-insured workers' compensation to individual funds.	(57,553)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(16,506,044)
Interest accrued on long-term liabilities is not due and payable in the current period and, therefore are not reported in the funds.	(103,745)
Net assets of governmental activities	\$ <u>35,013,794</u>

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds

For the year ended December 31, 2005

	<b>General Fund</b>	<b>Mental Health/ Mental Retardation</b>	<b>Children and Youth</b>	<b>HealthChoices- Cumberland County</b>	<b>Other Non-major Funds</b>	<b>Total</b>
<b>Revenues:</b>						
Taxes	\$ 31,689,080	—	—	—	922,912	32,611,992
Licenses and permits	88,955	—	—	—	13,345	102,300
Grants	3,913,338	26,025,375	8,905,396	18,069,073	13,714,446	70,627,628
County charges	6,859,402	—	406,278	—	1,789,888	9,055,568
Court costs, fines and forfeitures	1,009,726	—	—	—	315,762	1,325,488
Interest	797,750	183,619	—	10,264	191,448	1,183,081
Contributions and other	196,935	566,993	1,768	—	56,946	822,642
Total revenues	<u>44,555,186</u>	<u>26,775,987</u>	<u>9,313,442</u>	<u>18,079,337</u>	<u>17,004,747</u>	<u>115,728,699</u>
<b>Expenditures:</b>						
Current:						
General government – administrative	8,421,701	—	—	—	69,977	8,491,678
General government – judicial	10,661,205	—	—	—	3,423,578	14,084,783
Public safety	12,576,249	—	—	—	—	12,576,249
Public works and enterprises	—	—	—	—	827,474	827,474
Human services	568,944	27,372,787	10,918,122	18,079,337	11,252,399	68,191,589
Culture and recreation	85,569	—	—	—	56,890	142,459
Conservation and development	414,551	—	—	—	739,888	1,154,439
Economic development and assistance	1,661,088	—	—	—	583,668	2,244,756
Debt service:						
Principal retirement	—	—	—	—	1,092,112	1,092,112
Debt interest	—	—	—	—	470,229	470,229
Bond issuance cost	—	—	—	—	21,653	21,653
Capital outlay	859,091	44	68,982	—	2,010,040	2,938,157
Payments to other governments	81,600	—	—	—	277,066	358,666
Total expenditures	<u>35,329,998</u>	<u>27,372,831</u>	<u>10,987,104</u>	<u>18,079,337</u>	<u>20,824,974</u>	<u>112,594,244</u>
Excess (deficiency) of revenues over expenditures	<u>9,225,188</u>	<u>(596,844)</u>	<u>(1,673,662)</u>	<u>—</u>	<u>(3,820,227)</u>	<u>3,134,455</u>
<b>Other financing sources (uses):</b>						
Transfers in	556,880	616,844	1,751,809	—	4,023,759	6,949,292
Transfers out	(7,867,454)	(20,000)	(78,147)	—	(1,398,112)	(9,363,713)
Face amount of long-term debt issued	—	—	—	—	1,698,615	1,698,615
Bond premium	—	—	—	—	3,227	3,227
Proceeds from capital leases	19,505	—	—	—	25,425	44,930
Total other financing sources (uses)	<u>(7,291,069)</u>	<u>596,844</u>	<u>1,673,662</u>	<u>—</u>	<u>4,352,914</u>	<u>(667,649)</u>
Net change in fund balances	1,934,119	—	—	—	532,687	2,466,806
Fund balances, beginning of year	15,840,046	—	—	—	6,422,191	22,262,237
Fund balances, end of year	<u>\$ 17,774,165</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,954,878</u>	<u>24,729,043</u>

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the year ended December 31, 2005

Net change in fund balances-total governmental funds	\$ 2,466,806
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,122,267
The net effect involving the disposal of capital assets and the capitalization of construction in progress.	(1,074,109)
Deferred revenues that do not provide current financial resources (real estate and per capita taxes) and revenues which are not recognized as available (court costs and fines) in the governmental funds but are earned in the statement of activities.	207,230
The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(651,433)
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.	(1,332)
Compensated absence expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.	(131,944)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(35,402)
Internal service fund are used by management to charge the cost of workers' compensation to individual funds.	(30,974)
Change in net assets of governmental activities	\$ 2,871,109

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Net Assets

Proprietary Funds

December 31, 2005

**Business-type Activities**

	Business-type Activities				Internal Service Fund
	Enterprise Funds			Totals	Workers' Compensation
	County Nursing Home	Emergency Telephone	Other Non- major Funds		
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 4,533,162	5,490	200	4,538,852	1,785,982
Restricted cash - patient funds	115,195	—	—	115,195	—
Due from other funds	160,614	—	205,598	366,212	—
Accounts receivable (net of allowance):					
Patient accounts receivable	2,671,095	—	—	2,671,095	—
Customer accounts receivable	—	233,850	258,168	492,018	4,000
Prepaid items	32,929	83,598	—	116,527	—
Total current assets	<b>7,512,995</b>	<b>322,938</b>	<b>463,966</b>	<b>8,299,899</b>	<b>1,789,982</b>
Noncurrent assets:					
Restricted investments - bond proceeds	65,386	546,815	—	612,201	—
Deferred charges	188,948	130,885	—	319,833	—
Capital assets, net of depreciation	14,790,454	5,939,639	1,475,563	22,205,656	—
Total noncurrent assets	<b>25,537,616</b>	<b>7,257,725</b>	<b>2,403,295</b>	<b>35,198,636</b>	<b>1,793,982</b>
Total assets	<b>33,050,611</b>	<b>7,580,663</b>	<b>2,867,261</b>	<b>43,498,535</b>	<b>3,583,964</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	395,979	130,025	47,026	573,030	51,931
Accrued liabilities and withholdings:					
Accrued payroll	199,854	36,875	17,748	254,477	—
Accrued interest	52,793	55,492	—	108,285	—
Due to other funds	—	349,900	205,492	555,392	—
Unearned revenue	336,783	126,246	80,882	543,911	—
Funds held as fiduciary	241,800	—	—	241,800	—
Bond arbitrage payable	—	61,053	—	61,053	—
Capital lease payable	—	—	11,761	11,761	—
General obligation bonds payable	236,681	160,426	—	397,107	—
General obligation notes payable	298,830	354,312	—	653,142	—
Workers' compensation claims payable	—	—	—	—	611,582
Sick and vacation accrual	60,523	8,357	7,585	76,465	—
Total current liabilities	<b>1,823,243</b>	<b>1,282,686</b>	<b>370,494</b>	<b>3,476,423</b>	<b>663,513</b>
Noncurrent liabilities:					
Due in more than one year:					
Capital lease payable	—	—	8,378	8,378	—
General obligation bonds payable	7,556,010	2,434,936	—	9,990,946	—
General obligation notes payable	5,806,021	7,062,942	—	12,868,963	—
Workers' compensation claims payable	—	—	—	—	1,005,207
Sick and vacation accrual	529,153	226,114	48,298	803,565	—
Total noncurrent liabilities	<b>13,891,184</b>	<b>9,723,992</b>	<b>56,676</b>	<b>23,671,852</b>	<b>1,005,207</b>
Total liabilities	<b>15,714,427</b>	<b>11,006,678</b>	<b>427,170</b>	<b>27,148,275</b>	<b>1,668,720</b>
<b>Net assets</b>					
Invested in capital assets, net related debt	1,081,861	(3,464,840)	1,455,424	(927,555)	—
Unrestricted	5,761,495	(601,561)	56,935	5,216,869	121,262
Total net assets	<b>\$ 6,843,356</b>	<b>(4,066,401)</b>	<b>1,512,359</b>	<b>4,289,314</b>	<b>121,262</b>

Amounts reported for business-type activities in the statement of net assets are different because:

Internal service fund used by management to charge the cost of workers' compensation claims to individual funds. The net assets of the internal service fund are included in business-type activities in the statement of net assets.	121,262
Adjustment to reflect the consolidation of internal service activity related to governmental and component unit activities.	57,653
Net assets of business-type activities	<b>\$ 4,468,229</b>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

For the year ended December 31, 2005

	Business-type Activities				Internal Service Fund  Workers' Compensation	
	Enterprise Funds			Totals		
	County Nursing Home	Emergency Telephone	Other Non- major Funds			
<b>Operating revenues:</b>						
Charges for sales and services:						
County charges	\$ 22,150,637	2,014,343	1,197,925	25,362,905	840,151	
Rentals and other revenues	42,281	51,132	—	93,413	—	
Total operating revenues	<u>22,192,918</u>	<u>2,065,475</u>	<u>1,197,925</u>	<u>25,456,318</u>	<u>840,151</u>	
<b>Operating expenses:</b>						
Patient/client services	16,141,745	3,373,233	2,100,532	21,615,510	125,894	
Depreciation	962,182	818,608	284,570	2,065,360	—	
Loss and loss adjusting	—	—	—	—	786,578	
Administrative	3,228,074	78,649	—	3,306,723	—	
Total operating expenses	<u>20,332,001</u>	<u>4,270,490</u>	<u>2,385,102</u>	<u>26,987,593</u>	<u>912,472</u>	
Operating income (loss)	<u>1,860,917</u>	<u>(2,205,015)</u>	<u>(1,187,177)</u>	<u>(1,531,275)</u>	<u>(72,321)</u>	
<b>Nonoperating revenues (expenses):</b>						
Grants	2,311	4,542	1,493,960	1,500,813	—	
Interest income	126,808	51,710	1,220	179,738	42,709	
Interest expense	(420,945)	(307,397)	(2,087)	(730,429)	—	
Payment to municipalities	—	(1,764,505)	—	(1,764,505)	—	
Total net nonoperating revenues (expenses)	<u>(291,826)</u>	<u>(2,015,650)</u>	<u>1,493,093</u>	<u>(814,383)</u>	<u>42,709</u>	
Income (loss) before operating transfers	1,569,091	(4,220,665)	305,916	(2,345,658)	(29,612)	
Transfers in	—	2,293,043	134,063	2,427,106	—	
Transfers out	—	(12,685)	—	(12,685)	—	
Change in net assets	1,569,091	(1,940,307)	439,979	68,763	(29,612)	
Total net assets - beginning	<u>5,274,265</u>	<u>(2,126,094)</u>	<u>1,072,380</u>		<u>150,874</u>	
Total net assets - ending	<u>\$ 6,843,356</u>	<u>(4,066,401)</u>	<u>1,512,359</u>		<u>121,262</u>	

Amounts reported for business-type activities in the statement of activities are different because:

The internal service fund is used by management to charge the cost of workers' compensation claims to individual funds. The net revenues of certain activities of the internal service fund are reported within business-type activities.	(29,612)
Adjustment to reflect the consolidation of internal service fund activity related to governmental and component unit activities.	<u>31,069</u>
Change in net assets of business-type activities	<u>\$ 70,220</u>

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Cash Flows  
Proprietary Funds

For the year ended December 31, 2005

	<b>Business-type Activities</b>				
	<b>Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other Non- major Funds</b>	<b>Totals</b>	
<b>Cash flows from operating activities:</b>					
Cash received on surcharges	\$ —	1,973,591	—	1,973,591	—
Cash received on county charges	21,538,745	—	1,203,349	22,742,094	840,150
Payments to vendors	(6,091,848)	(1,754,858)	(1,002,132)	(8,848,838)	—
Payments to employees	(14,276,502)	(2,432,060)	(1,079,418)	(17,787,980)	(629,939)
Net cash provided by (used in) operating activities	<u>1,170,395</u>	<u>(2,213,327)</u>	<u>(878,201)</u>	<u>(1,921,133)</u>	<u>210,211</u>
<b>Cash flows from noncapital financing activities:</b>					
Subsidy from federal/state grants	2,311	1,768	754,022	758,101	—
Payments to municipalities	—	(1,764,505)	—	(1,764,505)	—
Transfers from other funds	—	2,317,543	352,016	2,669,559	—
Proceeds from tax anticipation note	18,957,638	—	—	18,957,638	—
Principal paid on tax anticipation notes	(18,957,638)	—	—	(18,957,638)	—
Net cash provided by noncapital financing activities	<u>2,311</u>	<u>554,806</u>	<u>1,106,038</u>	<u>1,663,155</u>	<u>—</u>
<b>Cash flows from capital and related financing activities:</b>					
Proceed from the issuance of long-term debt	6,306,821	7,671,074	—	13,977,895	—
Subsidy from federal/state grants	—	129,017	512,470	641,487	—
Transfers to other funds	—	(12,685)	—	(12,685)	—
Purchase of capital assets	(450,040)	(246,403)	(758,580)	(1,455,023)	—
Insurance proceeds from loss on capital assets	—	—	30,000	30,000	—
Principal paid on capital debt	(6,253,650)	(7,885,367)	(10,860)	(14,149,877)	—
Interest paid on capital debt	(382,601)	(491,220)	(2,087)	(875,908)	—
Net cash used in capital financing activities	<u>(779,470)</u>	<u>(835,584)</u>	<u>(229,057)</u>	<u>(1,844,111)</u>	<u>—</u>
<b>Cash flows from investing activities:</b>					
Proceeds from the sale and maturities of investments	266,210	2,416,360	—	2,682,570	—
Purchase of investments	(331,596)	(51,455)	—	(383,051)	—
Investment income received	126,808	51,710	1,220	179,738	40,209
Net cash provided by investing activities	<u>61,422</u>	<u>2,416,151</u>	<u>1,220</u>	<u>2,479,257</u>	<u>40,209</u>
Net increase (decrease) in cash and cash equivalents	454,658	(77,490)	—	377,168	250,420
Cash and cash equivalents, January 1	4,193,699	82,980	200	4,276,879	1,535,562
Cash and cash equivalents, December 31	<u>\$ 4,648,357</u>	<u>5,490</u>	<u>200</u>	<u>4,654,047</u>	<u>1,785,982</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 1,860,917	(2,205,015)	(1,187,177)	(1,531,275)	(72,321)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:					
Depreciation expense	962,182	818,608	284,570	2,065,360	—
Gain on disposal of capital assets	—	(2,130)	(709)	(2,839)	—
Changes in assets and liabilities in:					
Accounts receivable	(878,227)	(40,754)	—	(918,981)	—

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Cash Flows  
Proprietary Funds

For the year ended December 31, 2005

	<b>Business-type Activities</b>				<b>Internal Service Fund</b>	
	<b>Enterprise Funds</b>			<b>Totals</b>		
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other Non- major Funds</b>			
<b>(Continued)</b>						
Customer accounts receivable	\$ —	—	364	364	—	
Prepaid items	(1,177)	(73,713)	—	(74,890)	—	
Deferred charges	(53,505)	(78,223)	—	(131,728)	—	
Accounts payable	16,989	(92,453)	17,974	(57,490)	41,151	
Accrued liabilities and withholdings	(19,849)	33,637	1,714	15,502	—	
Due to other funds	(988,296)	(524,284)	5,063	(1,507,517)	—	
Deferred revenue	336,783	(49,000)	—	287,783	—	
Funds held as fiduciary	(65,422)	—	—	(65,422)	—	
Long term debt-claims payable	—	—	—	—	241,381	
Total adjustments	<u>(690,522)</u>	<u>(8,312)</u>	<u>308,976</u>	<u>(389,858)</u>	<u>282,532</u>	
Net cash provided by (used in) operating activities	<u>\$ 1,170,395</u>	<u>(2,213,327)</u>	<u>(878,201)</u>	<u>(1,921,133)</u>	<u>210,211</u>	

There were no non-cash financing and investing transactions.

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Fiduciary Net Assets  
Fiduciary Funds

December 31, 2005

	<b>Pension Trust – Employees' Retirement</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,740,180	3,033,825
Accounts receivable	—	5,668
Investments, at fair value	93,414,248	—
Accrued interest	477,584	—
 Total assets	 97,632,012	 3,039,493
<b>Liabilities</b>		
Due to other governments	—	1,233,270
Escrow and other liabilities	32,670	1,806,223
Deferred revenue	—	—
 Total liabilities	 32,670	 3,039,493
<b>Net assets</b>		
Net assets held in trust for pension benefits and other purposes	\$ 97,599,342	—

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Changes in Fiduciary Net Assets - Pension Trust Fund

For the year ended December 31, 2005

**Additions:**

Contributions:

Employer	\$ 2,421,626
Plan members	<u>2,137,538</u>
Total contributions	<u>4,559,164</u>

Investment income:

Net appreciation in fair value of investments	3,542,517
Interest	1,749,387
Dividends	<u>761,892</u>
Total investment income	<u>6,053,796</u>
Less investment expense	<u>246,480</u>
Net investment earnings	<u>5,807,316</u>
Total additions	<u>10,366,480</u>

**Deductions:**

Benefits	3,250,915
Refunds of contributions	414,945
Administrative expenses	<u>90,471</u>
Total deductions	<u>3,756,331</u>
Change in net assets	<u>6,610,149</u>

**Net assets:**

Beginning of year	<u>90,989,193</u>
End of year	<u>\$ 97,599,342</u>

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

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## **Notes to the Financial Statements**

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### **1. Summary of Significant Accounting Policies**

The more significant of the County's accounting policies are described below.

##### **A. The Reporting Entity**

The County of Cumberland is located in south central Pennsylvania, to the immediate west of the City of Harrisburg, the Capital of the Commonwealth. It is a County of the fourth class founded January 27, 1750, and operates under an elected three-member Board of Commissioners. The County provides services in many areas to its 223,089 residents, including various general governmental services, health and welfare, and community enrichment programs.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see below for description) to emphasize that it is legally separate from the government.

Consistent with the guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, the criteria used by the County to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, and so forth) within its reporting entity, are financial accountability and the nature and significance of the relationship.

Based on the foregoing criteria, the reporting entity has been defined to include all the component units for which the County is financially accountable or for which there is a significant relationship.

##### ***(1) Component Units***

###### ***Blended Component Units***

The Cumberland Area Economic Development Corporation (CAEDC) is a governmental not-for-profit that, despite being legally separate, is reported as a blended component unit (a non-major, special revenue fund). The CAEDC is reported as blended with the County due to the County's appointment of CAEDC's Board, due to the Member powers retained by the County Commissioners and the significant control the County Commissioners have over the CAEDC. Separate financial statements may be obtained from the Cumberland Area Economic Development Corporation, 18 North Hanover Street, Suite 102, Carlisle, PA 17013.

###### ***Discretely Presented Component Units***

The financial reporting of discretely presented component units entails separate columns on the government-wide financial statements. The separate columns emphasize that these component units are legally separate from the County. The component units presented in this way are:

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to Financial Statements

December 31, 2005

#### **Cumberland County Conservation District**

The District was formed by the County Commissioners in 1952, pursuant to the Conservation District Law of the Commonwealth to manage the conservation of natural resources in the County. The seven-member board is made up of one County Commissioner and six members appointed by the Commissioners from a list of nominees received from organizations approved by the Commonwealth.

The Commonwealth Law gives the County certain powers to supervise and direct the operations of the District. Employees of the District are County employees subject to the County Salary Board. The County receives reimbursement from the Commonwealth for a percentage of the direct salaries of the District employees and is reimbursed for certain other costs. The Law also gives the Commissioners the ability to unilaterally disband the District if they believe a substantial portion of land owners desire such action. The District publishes a separate audit report, which may be obtained at the District's office, 43 Brookwood Avenue, Suite 4, Carlisle, PA 17013-9172.

#### **Cumberland County Industrial Development Authority (IDA)**

The IDA was established under the Industrial and Commercial Development Authority Law of the Commonwealth to provide a means for developers within the County to obtain funds through the issuance of tax-exempt industrial development obligations. All of the bond issues must be approved by the County Commissioners, but the County has no ongoing liability for these bond issues. The IDA is administered by a seven-member board, all of whom are appointed by the Commissioners.

The activities of the IDA are conducted within the geographic boundaries of the County primarily for the benefit of County residents through the creation of employment opportunities. Revenues are primarily from application and servicing fees received from developers seeking to issue tax-exempt obligations. The IDA publishes a separate audit report, which may be obtained at the Cumberland County Commissioners' Office, One Courthouse Square, Carlisle, PA 17013.

#### **(2) *Related Organizations***

The County Commissioners are also responsible for appointing members to the boards of several organizations. The County's accountability does not extend beyond making the appointments and the organizations are not included in the County's financial statements. These organizations include:

#### **Cumberland County Housing Authority (Housing Authority)**

The Housing Authority was established pursuant to the Housing Authorities Law to promote the availability of safe, quality dwellings at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of whom are appointed by the County Commissioners.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to Financial Statements

December 31, 2005

The Housing Authority oversees low-rent, subsidized housing projects within the County. The Authority manages the acquisition of federal and state funds for the construction of or improvements to low-income, landlord-owned properties and reviews programs with the landlord to ensure compliance with various rules and regulations.

#### **Cumberland County Redevelopment Authority (Redevelopment Authority)**

The Redevelopment Authority was established in 1958 pursuant to the Urban Redevelopment Act of 1945 and is authorized to issue revenue bonds in order to undertake programs for voluntary repair, rehabilitation, and conservation of residential housing. The Authority is administered by a five-member Board, all of whom are appointed by the County Commissioners.

The authority provides consumer services and acts as a development partner with government and not-for-profit agencies. In addition to housing rehabilitation the Authority carries out public facility improvements and a blighted property elimination program within the County.

#### **Cumberland County Library System**

The Cumberland County Library System was formed pursuant to the Library Code and its seven Board members are appointed by the County Commissioners to serve for a two-year period. Although the County collects a special voter-approved tax, it cannot affect the Library System's taxing authority or require re-authorization.

The Library Board is an autonomous county-wide organization that oversees the Library System, which consists of eight libraries. The Board decides how funds are disbursed to the various libraries based on user demand and inventory needs with no oversight from the County Commissioners.

#### **Other Organizations**

The County Commissioners also appoint members to the boards of several other organizations. These organizations are:

- Affordable Housing Trust Fund Board
- Aging and Community Services Advisory Board
- Agricultural Land Preservation Board
- Blighted Property Reinvestment Board
- Capital Area Behavioral Health Collaborative Board
- Capital Resource Conservation and Development Area Council Board
- Central Cumberland County Task Force on Regional Development
- Children Services Citizen Advisory Committee
- Commission for Women
- Cooperative Extension Association
- Cumberland Valley Visitors Bureau Tourism Committee
- Drug & Alcohol Commission Advisory Board

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

Harrisburg Area Transportation Study Coordinating Committee  
LeTort Regional Authority  
Local Emergency Planning Committee  
Mental Health/Mental Retardation Advisory Board  
Municipal Authority  
Open Space Preservation Steering Committee  
Planning Commission  
Solid Waste Authority  
South Central PA Workforce Investment Board  
Susquehanna Area Regional Airport Authority Board  
Transportation Authority  
Tri-County Attendant Care Advisory Committee  
Tri-County Regional Planning Commission

#### **(3) Joint Ventures**

The County is a participant in a joint venture for the Cumberland-Dauphin-Harrisburg Transit Authority (CAT).

CAT was created in 1973 by the Counties of Cumberland and Dauphin and the City of Harrisburg under the "Municipal Authorities Act" for the purpose of providing public transportation. The Authority is governed by a seven-member board, of which the Cumberland County Commissioners appoint two members.

The County has no interest in the equity of CAT and as a result CAT is not recorded in the County's financial statements.

Selected disclosures from CAT's 2005 audited financial statements are:

Fiscal year:	June 30, 2005
Operating revenues	\$ 5,685,765
Operating expenses	15,359,953
Loss from operations	(9,674,188)
Total nonoperating revenues (expenses)	8,949,952
Capital grant funding	6,935,322
Net assets	20,788,727
Unrestricted deficit	(266,978)

CAT has a revolving loan with a bank with a maximum available amount of \$1,400,000, reducing to \$870,000 during the term of the loan at 70% of the bank's prime rate of interest, of which \$227,892 was outstanding at June 30, 2005. The note matures on December 31, 2011, and

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

has minimum balance requirements up to \$650,000 for 30 days each year. The revolving loan is secured by payments made to CAT from Cumberland County, Dauphin County and the City of Harrisburg under the terms of the Mass Transit Services and Funding Agreement dated November 3, 2003. Additionally, all assignable operating grant revenues secure the revolving loan.

CAT also has a \$750,000 line of credit with a bank at the bank's prime rate plus 150 basis points as of June 30, 2005, none of which was outstanding at June 30, 2005. The line of credit is secured by a security interest in pending Commonwealth grant receipts.

Per the aforementioned Agreement, the County's annual subsidy payment is \$218,888. In addition, the County pays \$11,000 per year to CAT for transportation services for Shippensburg Borough. In 2005, the County paid \$218,928 to CAT.

CAT issues publicly available financial statements that may be obtained by writing to Capital Area Transit, P.O. Box 1571, Harrisburg, PA 17105-1571.

#### **(4) Prison Board**

The Prison Board is composed of the President Judge of the Court of Common Pleas or a judge designated by him, the District Attorney, the Sheriff, the Controller and the Commissioners pursuant to PA Statute Title 61, Penal and Correction Institutions.

The Prison Board is responsible for the safe-keeping, discipline and oversight of prisoners, and the government and management of the County prison.

#### **B. Basis of presentation**

The basic financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

The County's financial statements are compliant with GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments.*" Among other things, GASB Statement No. 34 requires presentation of both government-wide and fund financial statements.

#### **C. Government-wide and fund financial statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on the overall County. The statement of net assets reports what the County owns and owes. The statement of activities reports, by program category, the amount of expenses not covered by program revenues. Program expenses not covered by program revenues are instead financed with County taxes and other general revenues.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Indirect expenses* are allocated to all governmental and business-type activities in accordance with the County's indirect cost allocation plan. However, indirect expenses are recorded and reported only in those activities with cost reimbursement grant funding. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. County real estate taxes and other revenues not directly relating to a specific program are reported instead as *general revenue*.

The government-wide statements do not include the fiduciary activities of the primary government. For the most part, intergovernmental activity has been removed from these statements. *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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds (general fund, mental health/mental retardation, children and youth and HealthChoices-Cumberland County) and major individual enterprise funds (County nursing home and emergency telephone) are reported as separate columns in the fund financial statements.

#### **D. Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and pension trust fund financial statements. Agency funds are reported using the *accrual basis of accounting* and have no measurement focus.

The government-wide financial statements report revenues when earned and expenses when the liability is incurred regardless of the timing of related cash flows. County taxes are reported as revenue in the year for which they are levied. Grants and similar revenues are deemed earned when all eligibility requirements imposed by the provider have been met. Disbursement of grant funds in payment of program costs is typically an eligibility criterion. Any excess of grant receipts or grant expenditures at year end is recorded as deferred revenue or accounts receivable, respectively.

The County applies to the government-wide and enterprise fund financial statements those applicable Governmental Accounting Standards Board (GASB) pronouncements and only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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Governmental fund financial statements report revenues as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Real estate and per capita taxes due for the current year are considered available and are, therefore, recognized as revenues if collected during the year or during the first sixty days of the subsequent year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *mental health/mental retardation (MH/MR) fund* accounts for the administration of a wide range of services to persons with mental disabilities.

The *children and youth fund* accounts for amounts received from various federal, state, and local sources. These funds are restricted to provide support services to underprivileged juveniles.

The *HealthChoices fund* accounts for the County's participation in Pennsylvania's innovative mandatory managed care program for Medical Assistance consumers. The program is designed to improve access to and quality of care for Medical Assistance consumers throughout Pennsylvania.

The County reports the following major proprietary funds:

The *County nursing home* accounts for the activities of the County's Claremont Nursing and Rehabilitation Center. The County's nursing home provides care to individuals in the community with medical/nursing needs who require residential nursing home care.

The *emergency telephone fund* accounts for the operation of the County's emergency 911 communication center.

Additionally, the County reports the following fund types:

An *internal service fund*, a type of proprietary fund, accounts for the County's self-insured risk management activities related to liabilities incurred as a result of workplace injuries.

A *capital projects fund*, a type of governmental fund, accounts for the financial resources used for acquisition and capital construction of major capital facilities in governmental funds.

A *debt service fund*, a type of governmental fund, accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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*Fiduciary funds*, consisting of the County's pension trust and agency funds, are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds.

#### **E. Interfund Eliminations**

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are balances between the governmental activities and the business-type activities. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

#### **F. Program Revenues**

Amounts reported as program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **G. Net Patient Service Revenue**

Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments due to audits in subsequent years.

#### **H. Operating and Nonoperating Revenues**

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Operating revenues consist principally of billings for medical care, pharmaceuticals and room and board at the County nursing home. Operating revenues consist of tuition in the Early Learning Center; taxes charged to phone customers in the emergency telephone fund; and fees assessed to material handlers in hazardous materials.

Operating expenses consist of the costs of goods and services, administrative expenses and depreciation on capital assets.

All other revenues and expenses not meeting the above criteria are reported as nonoperating revenues and expenses.

#### **I. Deposits and Investments**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to Financial Statements

December 31, 2005

The County has written investment policies governing both its pension fund investments and its investments in other funds. These policies are discussed in Note 2.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

#### **J. Prepays**

The County uses the consumption approach to recording prepaid services. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### **K. Restricted Assets and Related Liabilities**

Certain cash and investments in governmental activities are maintained in separate bank accounts and are classified as restricted assets on the balance sheet because their use is restricted by legislation, bond covenants, or agreement with the provider of the funds.

Restricted cash and investments in governmental activities consist of general obligation bond and note proceeds restricted for use on the implementation of a Countywide enterprise resource planning system, open space, agricultural easements, and Commonwealth funds held by the County to be disbursed to other counties in the form of assisted technology grants.

Restricted cash and investments in business-type activities consist of general obligation bond proceeds restricted to asset acquisition at the emergency telephone center. Cash and investments held for the purpose of reimbursing municipalities for the cost of purchasing 800 MHz radios are also restricted. Resident money held in a fiduciary capacity at the County's nursing home are also reported as restricted cash.

#### **L. Capital Assets**

Capital assets, which include land, improvements other than buildings, buildings and systems, machinery and equipment, bridges (infrastructure) and agricultural easements, are recorded in the applicable governmental and business-type activities columns in the government-wide statement of net assets. Capital assets are defined by the County as assets with a value greater than the range of \$500 to \$1,000 depending on the type of asset or departmental reporting requirements and an initial useful life greater than one year. This capitalization policy is applied to individual capital assets rather than to groups/sets of capital assets (e.g. chairs, desks, etc.). Such assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated.

The County has capitalized the cost of its infrastructure assets, regardless of when constructed or improved.

Maintenance, repairs, and equipment less than the capitalization threshold are charged to operations when incurred. Costs that materially change capacities or extend useful lives are capitalized. Upon sale or

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

retirement the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results in operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation begins when the project is placed into service. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings and systems, improvements other than buildings, machinery and equipment, and bridges are depreciated using the straight-line method at half year conventions over the following estimated useful lives:

Description	Useful Life	Capital Threshold
Land	Not depreciated	\$ 1,000
Buildings and systems	5-50	1,000
Improvements other than buildings	10-45	1,000
Machinery and equipment	5-20	1,000
Computer, audio and video equipment	5-7	500
Bridges	50	1,000
Agricultural easements	Not depreciated	1,000

### M. Compensated Absences

Accumulated unpaid vacation, sick, and holiday pay liability is determined according to the following personnel policies of the County:

- Upon termination, all unused vacation time up to a maximum of 30 days, will be paid with the final check.
- Upon termination, employees will be paid for one half of their total unused sick time up to a maximum of 45 days. Two types of sick leave exist within the County:
  - Accrued prior to August 1, 1997 and is carried forward from year to year.
  - Consists of five days earned each year and is not permitted to be carried into the next year.
- For those departments required to provide 24-hour coverage on holidays, employees will be paid a supplemental day's wages for all accumulated holidays worked.

### N. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond and note discounts and premiums, as well as issuance costs and deferred amounts on refundings, are deferred and amortized on the

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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straight-line basis, which approximates the effective interest methods over the bond and note terms. Bonds and note payable are reported net of applicable bond and note deferred amounts on refundings and discount and premium.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs and refunding gains/losses, during the current period. The face amount of the debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses and the premium as other financing sources. Issuance costs are reported as debt service expenditures.

### O. Risk Management, Including Self Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions for which it carries commercial insurance. Insurance settlements have not exceeded insurance coverage during the past three years.

The County establishes claims liabilities for its workers' compensation self-insurance activities. The liability is based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the claims involved. Estimated amounts of subrogation and reinsurance that are recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The County has established a trust account with a local bank to fund its workers' compensation liabilities and has accounted for this in an internal service fund.

### P. Fund Balance Reserves and Designations

Reserved fund balances represent those portions of fund equity not appropriable for expenditure or that are legally segregated for a specific future use. Reserves have been established as follows:

#### *(1) Reserved for prepaid items*

The County under certain contracts, expends monies in advance of receiving the goods or services. Because the expense has not been recorded, a reserve must be established for the prepaid account balance.

#### *(2) Reserve for Clerk of Court automation*

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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Monies collected per statute on behalf of the Clerk of Court automation fund are reserved solely for the purpose of automation and continued automation update of the Clerk of Court office.

#### ***(3) Reserve for Prothonotary automation***

Monies collected per statute on behalf of the Prothonotary automation fund are reserved solely for the purpose of automation and continued automation update of the Prothonotary office.

#### ***(4) Reserve for Register of Wills automation***

Monies collected per statute on behalf of the Register of Wills and Clerk of Orphans' Court automation fund are reserved solely for the purpose of automation and continued automation update of the Register of Wills and Clerk of Orphans' Court office.

#### ***(5) Reserve for Register of Wills – Act 34***

Filing fees collected per statute are reserved to be used for adoption counseling by individuals who cannot afford to pay for it.

#### ***(6) Reserve for farmland preservation, open space and greenways***

Certain proceeds from the County's 2004 general obligation bond issue are reserved to promote farmland preservation, open space and greenways in the County.

#### ***(7) Reserve for offenders' supervision***

The County receives administrative fees from probationers within the County. The funds are reserved to be used for probation expenditures.

#### ***(8) Reserve for criminal investigation***

The County receives monies from grants, restitution and contributions which are to be used for criminal investigation expenditures.

Designated fund balances represent the County's managerial plans for future use of financial resources. Designations have been established as follows:

#### ***(1) Future capital projects***

This designation was established to fund future capital projects in the County.

#### ***(2) Future debt service arbitrage payments***

This designation has been established to cover future payments to the Internal Revenue Service for interest earned in excess of interest paid on tax-exempt bonds.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### ***(3) Prison canteen***

Monies representing commissions earned from the operation of the prison canteen are designated for prisoner welfare expenditures.

#### ***(4) Farmland preservation***

The County has set aside cash and investments to provide required matching contributions to a state program that allows farmers to sell their rights to develop agriculture land. The program is designed to reduce the development of County farmland.

### **Q. Retirement Benefits**

The County funds accrued pension cost on its contributory defined benefit pension plan covering substantially all employees. Prior service costs have been fully amortized. The County provides no other postretirement benefits for County employees.

### **R. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **S. New Accounting Pronouncements**

Effective January 1, 2005, the County adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures." GASB Statement No. 40 amends GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Effective January 1, 2005, the County adopted GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

The County has not yet completed the varied, and in some cases complex, analyses required to estimate the financial statement impact of the following statements.

In April 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." This Statement establishes uniform financial reporting standards for OPEB plans and supercedes guidance included in Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans." The County is required to adopt Statement No. 43 for its 2007 financial statements

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

In May 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1." GASB Statement No. 44 amends the portions of NCGA Statement 1, "Governmental Accounting and Financial Reporting Principles," that guide the preparation of the statistical section. The County is required to adopt GASB Statement No. 44 for its 2006 financial statements.

In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The County is required to adopt GASB Statement No. 45 for its 2007 financial statements.

In December 2004, the GASB issued Statement No. 46, "Net Assets Restricted by Enabling Legislation." This Statement clarifies that a legally enforceable enabling legislation restriction is one that an external party can compel a government to honor. The County is required to adopt Statement No. 46 for its 2006 financial statements.

In June 2005, the GASB issued Statement No. 47, "Accounting for Termination Benefits." This Statement establishes accounting standards for termination benefits. The County is required to adopt Statement No. 47 for its 2006 financial statements.

### **2. Deposits and Investments**

In 2005, the County adopted Governmental Accounting Standard Board Statement (GASB) No. 40 "Deposit and Investment Risk Disclosures." This Statement requires enhanced disclosure of the risks of loss that the County's deposits and investments are subject to.

Specifically, this Statement requires the following disclosures regarding the County's pension and non-pension deposits and investments:

- Policies
- Risks
  - Custodial credit risk
  - Interest rate risk
  - Credit risk
  - Concentration of credit risk
  - Foreign currency risk
  - Emerging market risk

### ***POLICIES***

***Policies – non-pension investments*** - Deposits and investments for the primary government and its discretely presented components units are governed by Pennsylvania law (County Code, Section 1706).

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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Except for the County's pension trust fund (discussed below), the Commonwealth restricts the County's funds to the following:

- U.S. Treasury bills
- Obligations of the U.S. Government or its agencies or instrumentalities
- Insured or collateralized time deposits with financial institutions
- Shares of an investment company registered under the Investment Company Act of 1940, provided its investments are of the aforementioned types
- Insured or collateralized certificates of deposit from financial institutions

In 2003, the Commissioners adopted an investment policy governing its non-pension cash and investments. This policy is consistent with the restrictions cited above and provides the following further restrictions on the County's investments:

- Limits investments in commercial paper to 25% of County available funds
- Prohibits the placement of more than 35% of aggregate cash and investments in any one financial institution
- Restricts repurchase agreements to those invested in U.S. Government obligations and those of its agents and instrumentalities that are U.S. Government backed and requires a 102% margin for underlying collateral
- Requires that the purchase of securities be executed on a delivery versus payment basis through an independent third party and that securities shall be held by the custodian as evidenced by safekeeping receipts

**Policies – pension investments** – The County Retirement Board, which according to law consists of the three Commissioners, Controller and Treasurer, manages the investments of the pension trust fund in a fiduciary capacity.

In 2003, the Retirement Board adopted an investment policy ("Pension Policy") that governs the investments of the County's pension trust fund.

The Pension Policy establishes a long-term target average total annual rate of return that is equal to or greater than the Consumer Price Index plus 6 percent and the Plan's stated actuarial assumption.

The Pension Policy provides that not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Also, not more than 25% of the stock valued at market may be held in any one industry category. In order to avoid exposure to foreign currency risk, investments in non-dollar denominated equities are prohibited. The target asset weighting for emerging markets is 0%.

The Pension Policy provides that fixed income investments shall be high quality, marketable securities with a preponderance of the investments in U.S. Treasury, Federal agencies and U.S. Government guaranteed obligations, and investment grade corporate issues including convertibles. The overall rating of fixed income investments shall be at least "A" (upper medium investment grade), according to either Moody's or Standard

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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& Poor's rating systems. When the yield spread adequately compensates for additional risk, BAA or BBB (lower medium investment grade) ratings may be purchased up to a maximum of 15% of total market value of fixed income securities. The Pension Policy does not address the management of interest rate risk.

Holdings of fixed income securities of any one issuer cannot exceed 5% of the total bond portfolio at time of purchase. Debt securities issued by the U.S. Treasury and Federal agencies are exempt from this restriction.

In regard to investments in mutual funds, the Pension Policy recognizes that, given the nature of mutual funds, the diversification limitations regarding both concentrations in individual securities and industry sectors may at times be exceeded.

The Pension Policy prohibits the purchase and holding of the following securities: letter stock and other unregistered securities, commodities or commodity contracts, short sales, margin transactions, privately placed or otherwise unregistered equity securities issued under SEC Rule 144(a), private placements, derivatives and options or futures for the purpose of portfolio leveraging. Also prohibited are direct investments in real estate, oil, gas or timber.

## ***RISKS***

### ***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of a bank failure, the County will not be able to recover its deposits or will not be able to recover collateral securities.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to an investment transaction, the County will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

***Custodial credit risk – non-pension deposits*** – Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. As of December 31, 2005, \$33,027,300 of the County's bank balance of \$35,397,331 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County's name	\$ 90,647
Uninsured and collateral held by pledging bank's trust department not in the County's name	<u>32,936,653</u>
Total	<u>\$ 33,027,300</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

**Custodial credit risk – fiduciary fund deposits** – As of December 31, 2005, \$289,442 of the County's bank balance of its fiduciary funds of \$3,463,694 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County's name	\$ 87,318
Uninsured and collateral held by pledging bank's trust department not in the County's name	202,124
Total	<u>\$ 289,442</u>

A County agency fund has \$313,204 invested at December 31, 2005 under the terms of a written repurchase agreement with a local financial institution. The agreement provides for earnings based on an average of short term U.S. Treasury securities. The repurchase account is not subject to FDIC insurance but is collateralized by U.S. agency securities held in the name of the local financial institution in an amount that exceeded the County's funds in the repurchase account in 2005. The County's investment policy does not require that repurchase agreement collateral that is held by third parties be registered in the County's name

**Custodial credit risk – Cumberland County Industrial Development Authority deposits** – As of December 31, 2005, \$44,352 of the Authority's bank balance of \$211,733 was exposed to custodial risk because it is uninsured and collateralized with securities held by the bank's agent but not in the Authority's name.

**Custodial credit risk – Cumberland County Conservation District deposits** – As of December 31, 2005, \$205,129 of the District's bank balance of \$282,685 was exposed to custodial credit risk because it is uninsured and collateralized with securities held by the bank's agent but not in the District's name.

**Custodial credit risk – non-pension investments** – The County is exposed to custodial credit risk if its securities are held by a third party and are not registered in the County's name. The County is exposed to custodial credit risk at December 31, 2005 through a \$326,555 U.S. Treasury inflation adjusted bond that matures in 2022 which is held by a third party and not registered in the County's name. This security is held in the County's general fund. The County's investment policy does not require that securities held by third parties be registered in the County's name.

**Custodial credit risk – pension investments** – The investments in the County's pension trust fund are exposed to custodial credit risk. The investments are held by the custodian in the custodian's name and not the name of the County and are recorded by the custodian in book entry only in the name of the County.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

***Interest rate risk – non-pension investments*** – As of December 31, 2005 the County had the following maturities of debt securities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturities (in Years)</b>			<b>More Than 10</b>
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	
<b><u>Debt securities</u></b>					
Money market funds	\$ 2,497,978	2,497,978	—	—	—
U.S. Treasury notes	223,416	49,949	124,803	48,664	—
U.S. Treasury TIPS	631,203	49,396	255,252	—	326,555
Total debt securities	\$ 3,352,597	2,597,323	380,055	48,664	326,555

Of the \$3,352,597 of non-pension investments, above, \$1,951,163 of short-term, liquid investments are classified as cash and cash equivalents, and \$1,401,434 is classified as investments, on the statement of net assets of the primary government. Savings accounts and time deposits at financial institutions constitute the remaining \$6,495,606 of the total \$7,897,040 of investments and restricted investments reported on the statement of net assets of the primary government.

The County holds \$631,203 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2005. These bonds pay a fixed rate of interest over their term. The bond principal, however, is adjusted for changes in the consumer price index. At maturity, the bond pays the higher of the inflation-adjusted principal or the original principal amount; thereby protecting the holder from adverse changes in the inflation rate.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

***Interest rate risk – pension investments*** – As of December 31, 2005 the County's pension trust fund had the following investments:

**Pension Trust Fund Investments**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			<b>More Than 10</b>
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	
<b><u>Debt securities</u></b>					
U.S. Treasury bills and GNMA	\$ 1,427,670	986,446	—	—	441,224
U.S. Treasury TIPS	2,336,040	—	—	2,336,040	—
U.S. agency mortgage backed securities	25,971,864	—	8,001,254	8,842,706	9,127,904
Corporate mortgage backed securities	590,208	—	43,021	52,233	494,954
Money market funds	2,753,734	2,753,734	—	—	—
Corporate notes	1,873,675	—	1,873,675	—	—
Corporate bonds	6,335,573	471,801	949,172	2,096,379	2,818,221
Total debt securities	<u>41,288,764</u>	<u>4,211,981</u>	<u>10,867,122</u>	<u>13,327,358</u>	<u>12,882,303</u>
<b><u>Other investments</u></b>					
Equity mutual funds U.S.	12,745,085				
Equity mutual fund - international	11,523,012				
Equity securities-U.S.	<u>31,597,567</u>				
Total investments	<u>\$ 97,154,428</u>				

The total Pension Trust investments of \$97,154,428, above, includes \$3,740,180 of short-term, liquid investments that are classified as cash and cash equivalents on the Pension Trust Employees' Retirement Statement of Fiduciary Net Assets.

Debt securities with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

Of the pension trust fund's debt security holdings, \$26,562,072 are corporate or U.S. government agency mortgage backed debt securities that are subject to early payment by the mortgage holder or are securities that are callable by the issuer at established intervals or subsequent to future dates.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

The terms of the following callable debt securities may cause their fair value to be highly sensitive to interest rate changes. The type, fair value and terms of these debt securities at December 31, 2005 follow:

#### **Pension Fund Debt Securities Highly Sensitive to Interest Rate Changes**

<b>Debt Security</b>	<b>Fair Value at <u>December 31, 2005</u></b>	<b>Interest Terms</b>
U.S. agencies	\$ 694,278	Zero coupon bond maturing in 2032
U.S. agencies	1,785,779	Zero coupon bond maturing in 2033
U.S. agencies	1,162,545	Fixed at 6% as long as six month LIBOR is less than 6%
U.S. agencies	879,835	Fixed at 5.45% as long as six month LIBOR is less than 7%
U.S. agencies	1,321,688	Three month LIBOR plus 1% as long as three month LIBOR is under 8%
U.S. agencies	1,924,230	Three month LIBOR plus 1.15% as long as three month LIBOR is under 8%
U.S. agencies	1,644,155	Three month LIBOR plus 1% capped at 5% 2/05-2/08, 6% 2/08-2/11, 7% 2/11-2/14, 8% 2/14-2/17
U.S. agencies	1,468,125	Fixed at 7% as long as six month LIBOR is less than 7.5%
U.S. agencies	1,144,250	Three month LIBOR plus 1.5% as long as three month LIBOR is less than 8%
Corporate notes	1,347,100	7.5% to 1/05, then previous coupon minus twelve month LIBOR plus X, where X=3% to 10/05, 3.5% to 10/06, 4% to 10/07, 5% to 10/08 and 6% to 10/09.
Corporate notes	526,575	7.5% to 12/04, then previous coupon minus twelve month LIBOR plus X, where X=3% to 9/05, 3.5% to 9/06, 4% to 9/07, 5% to 9/08 and 6% to 9/09.
	<hr/> <u>\$ 13,898,560</u>	

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

The pension trust fund holds \$2,336,040 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2005. These bonds pay a fixed rate of interest over their term. The bond principal, however, is adjusted for changes in the consumer price index. At maturity, the bond pays the higher of the inflation-adjusted principal or the original principal amount; thereby protecting the holder from adverse changes in the inflation rate.

The Pension Policy does not address the management of interest rate risk.

### ***Credit Risk***

Credit risk is the risk that an issuer of debt securities or other counterparty to an investment will not fulfill its obligations.

***Credit risk – non-pension investments*** - The County's credit risk on its non-pension investments at December 31, 2005 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S &amp; P Rating</u>
		<u>AAA</u>
<b><u>Debt securities</u></b>		
Money market funds	\$ 2,497,978	2,497,978
U.S. Treasury notes	223,416	223,416
U.S. Treasury TIPS	631,203	631,203
Total debt securities	<u>\$ 3,352,597</u>	<u>3,352,597</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

**Credit risk – pension investments** - Exposure to credit risk in the County pension trust fund at December 31, 2005 is as follows:

<b>Debt Investments</b>	<b>Fair Value</b>	<b>Quality Ratings*</b>				
		<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Unrated</b>
U.S. Treasury bills and GNMA	1,427,670	—	—	—	—	1,427,670
U.S. Treasury TIPS	2,336,040	—	—	—	—	2,336,040
U.S. agency mortgage backed securities	25,971,864	25,544,368	—	—	—	427,496
Corporate mortgage backed securities	590,208	52,233	385,826	—	—	152,149
Money market funds	2,753,734	—	—	—	—	2,753,734
Corporate notes	1,873,675	526,575	—	—	—	1,347,100
Corporate bonds	6,335,573	445,214	1,291,548	1,884,617	2,714,194	—
Total	41,288,764	26,568,390	1,677,374	1,884,617	2,714,194	8,444,189
		64%	4%	5%	7%	20%

\* Standard & Poor's quality ratings.

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss that is attributed to the magnitude of the County's investment in the debt securities of a single issuer.

**Concentration of credit risk – pension investments** - At December 31, 2005, the pension trust fund had more than 5% of its investment portfolio with the following issuers:

<b>Issuer - Debt Securities</b>	<b>Fair Value</b>	<b>Percent of Total Pension Trust Fund Investments</b>
Federal Home Loan Mortgage Corporation	\$ 9,250,850	9.5%
Federal Home Loan Board	7,879,624	8.1%
Federal National Mortgage Association	8,841,391	9.1%

The issuers listed above are independent organizations sponsored by the Federal government and so are permitted by the County's investment policy to exceed the aforementioned 5% limitation imposed on other fixed income holdings. Debt issued by the above organizations is not backed by the full faith and credit of the U.S. government.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### ***Foreign Currency Risk***

***Foreign currency risk – pension investments*** - Foreign currency risk is the risk that the fair market value of such securities will be adversely affected by changes in exchange rates. The pension trust fund is exposed to foreign currency risk through an \$11,523,012 investment at fair value in an international equity mutual fund. Approximately 99% of the securities held in this fund are denominated in other than U.S. dollars.

#### ***Emerging Market Risk***

***Emerging market risk – pension investments*** - Emerging market risk is the risk that political and legal changes in an emerging market may have a detrimental effect on the rights of shareholders in such markets. Such changes may impair investment value. China is an example of an emerging market in the process of moving from a closed to a more open market economy.

The pension trust fund is exposed to emerging market risk in its \$11,523,012 investment at fair value in an international equity mutual fund that purchases foreign equity securities in foreign markets in the local currency. The mutual fund manages emerging market risk by limiting its investments in emerging markets to no more than ten percent of its fund portfolio.

### **3. Real Estate Taxes**

Real estate taxes attach as an enforceable lien on property as of January 1 and are levied on March 1. The County bills these taxes which are collected by elected tax collectors. Taxes paid through April 30 are given a 2% discount. Amounts paid after June 30 are assessed a 10% penalty. The County collects delinquent real estate taxes on behalf of itself and other taxing authorities.

The County is permitted by the County Code of the Commonwealth of Pennsylvania to levy real estate taxes up to 25 mills on every dollar of adjusted valuation for general County purposes exclusive of the requirements for the payment of interest and principal on bonded debt. For 2005, County real estate taxes were levied at the rate of 2.006 mills for general County purposes. An additional levy was approved by the electorate for the County library system at .018 mills. This tax is accounted for as an agency transaction and the revenues are not recognized by the County.

### **4. Receivables**

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2005.

The County nursing home has \$3,471,763 in patient accounts receivable at December 31, 2005, which is primarily a Medical Assistance reimbursement receivable from the Commonwealth of Pennsylvania. The cost reimbursements receivable is subject to audit and final determination by the Department of Public Welfare. The County nursing home recorded an allowance for doubtful accounts of \$800,668 against the patient accounts receivable. Of the County nursing home's patient accounts receivable, \$367,998 is expected to be collected beyond one year.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

Real estate tax receivable is reduced by an allowance for uncollectible accounts of \$427,158 for 2005 which is determined by a review of account status. Of the County's delinquent taxes receivable, \$230,000 is expected to be collected beyond one year.

Court costs and fines receivable are collectible balances on the day they are imposed through the County's court system. The County collects these balances through the Clerk of Court and the probation offices. Court costs and fines receivable as of the end of December 31, 2005 is \$4,480,679. Of that balance, the County has recognized an allowance for doubtful accounts of \$2,912,441. The County expects to collect the net receivable balance within the next year.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

**5. Capital Assets**

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance (as restated)	Additions	Sales and Other Dispositions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and improvements	\$ 1,673,028	-	-	1,673,028
Construction in progress	1,307,569	163,883	(1,007,134)	464,318
Agricultural easements (see Note 6)	2,159,757	342,403	-	2,502,160
Total capital assets, not being depreciated	<u>5,140,354</u>	<u>506,286</u>	<u>(1,007,134)</u>	<u>4,639,506</u>
Capital assets, being depreciated:				
Buildings and systems	32,959,816	1,695,556	(229,751)	34,425,621
Improvements other than buildings	54,566	-	-	54,566
Machinery and equipment	11,736,934	1,743,921	(623,360)	12,857,495
Bridges	6,774,381	-	-	6,774,381
Total capital assets being depreciated	<u>51,525,697</u>	<u>3,439,477</u>	<u>(853,111)</u>	<u>54,112,063</u>
Less accumulated depreciation for:				
Buildings and systems	(20,784,061)	(793,534)	215,786	(21,361,809)
Improvements other than buildings	(50,317)	(1,604)	-	(51,921)
Machinery and equipment	(7,325,766)	(914,062)	570,350	(7,669,478)
Bridges	(5,248,291)	(114,296)	-	(5,362,587)
Total accumulated depreciation	<u>(33,408,435)</u>	<u>(1,823,496)</u>	<u>786,136</u>	<u>(34,445,795)</u>
Total capital assets, being depreciated, net	<u>18,117,262</u>	<u>1,615,981</u>	<u>(66,975)</u>	<u>19,666,268</u>
Governmental activities capital assets, net	<u>\$ 23,257,616</u>	<u>2,122,267</u>	<u>(1,074,109)</u>	<u>24,305,774</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

**5. Capital Assets (continued)**

	Beginning Balance	Additions	Sales and Other Dispositions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 95,809	-	(95,809)	-
Total capital assets, not being depreciated	<u>95,809</u>	<u>-</u>	<u>(95,809)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and systems	26,068,948	415,572	-	26,484,520
Improvements other than buildings	549,615	6,102	-	555,717
Machinery and equipment	12,295,540	1,129,160	(46,626)	13,378,074
Total capital assets being depreciated	<u>38,914,103</u>	<u>1,550,834</u>	<u>(46,626)</u>	<u>40,418,311</u>
Less accumulated depreciation for:				
Buildings and systems	(9,416,527)	(953,337)	-	(10,369,864)
Improvements other than buildings	(190,336)	(27,520)	-	(217,856)
Machinery and equipment	(6,589,897)	(1,084,503)	49,465	(7,624,935)
Total accumulated depreciation	<u>(16,196,760)</u>	<u>(2,065,360)</u>	<u>49,465</u>	<u>(18,212,655)</u>
Total capital assets, being depreciated, net	<u>22,717,343</u>	<u>(514,526)</u>	<u>2,839</u>	<u>22,205,656</u>
Business-type activities capital assets, net	<u>\$ 22,813,152</u>	<u>(514,526)</u>	<u>(92,970)</u>	<u>22,205,656</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2005

**5. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Other Dispositions</u>	<u>Ending Balance</u>
<b>Component units:</b>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 135,486	-	-	135,486
Total capital assets being depreciated	135,486	-	-	135,486
Less accumulated depreciation for:				
Machinery and equipment	(93,035)	(18,335)	-	(111,370)
Total accumulated depreciation	(93,035)	(18,335)	-	(111,370)
Total capital assets, being depreciated, net	<u>42,451</u>	<u>(18,335)</u>	<u>-</u>	<u>24,116</u>
Component unit capital assets, net	<u>\$ 42,451</u>	<u>(18,335)</u>	<u>-</u>	<u>24,116</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### 5. Capital Assets (continued)

Depreciation expense was charged to the functions/programs of the County in 2005 as follows:

Governmental activities:		
General government	\$	1,084,510
Public safety		421,944
Roads and bridge maintenance		114,296
Solid waste management		49,805
Human services:		
Mental health/mental retardation		33,229
Children and youth		43,375
Food and shelter		9,326
Office of aging		28,078
Other		36,439
Conservation		1,845
Economic development and assistance		649
Total depreciation expense - governmental activities	\$	<u>1,823,496</u>
Business-type activities:		
Emergency telephone	\$	818,608
Hazardous materials protection		44,469
Transportation services		226,996
County nursing home		962,182
Early Learning Center		13,105
Total depreciation expense - business-type activities	\$	<u>2,065,360</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### **6. Restatement of Net Assets/Restatement of Beginning Balances**

A portion of agricultural easements reported as capital assets of the County in prior years had been purchased using funding beginning in 1992 provided by and through an agreement with the Commonwealth of Pennsylvania. It has been determined that such easements should not be reported as assets of the County; as the legal form of the agreement between the County and the Commonwealth of Pennsylvania does not give the County an ownership interest in the agricultural easements to the extent that the funding to purchase the easements was provided by the Commonwealth.

The portion of agricultural easements that was purchased using Commonwealth of Pennsylvania funding described above, was reported as assets of the County in its governmental activities statement of net assets as of December 31, 2003 and 2004. The effect of this restatement is to decrease agricultural easements and net assets invested in capital assets, net of related debt on the governmental activities statement of net assets at January 1, 2005, by \$17,471,528.

Agency fund beginning balances are restated to reflect the reporting of cash in the funds of the County with ownership rights to the cash. The effect of this restatement is to reduce cash and other liabilities at January 1, 2005 by \$439,979.

#### **7. Interfund and Transfer Accounts**

The composition of interfund balances at December 31, 2005, follows:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
<b>Governmental funds:</b>		
General fund	\$ 1,525,295	—
Mental health/mental retardation	598,410	—
Children and youth	—	2,196,251
HealthChoices-Cumberland County	—	19,362
Other non-major funds	1,744,610	1,463,522
	<u>3,868,315</u>	<u>3,679,135</u>
<b>Enterprise funds:</b>		
County nursing home	160,614	—
Emergency telephone	—	349,900
Other non-major funds	205,598	205,492
	<u>366,212</u>	<u>555,392</u>
<b>Total primary government</b>	<b>\$ 4,234,527</b>	<b>4,234,527</b>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

Interfund payable balances for the governmental and proprietary funds are the result of normal business processes at the County where the general fund pays outstanding bills and invoices on their behalf. The general fund is reimbursed biweekly, or as funds become available.

Transfers from the general fund are used, in part, to help finance various grant programs in other funds. Additionally, transfers are used to subsidize operations such as the Early Learning Center, emergency telephone and hazardous materials programs. Transfers are also used to move unrestricted funds from the general fund to pay debt service.

The composition of interfund transfers for the year ended December 31, 2005, follow:

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental funds:</b>		
General	\$ 556,880	7,867,454
Mental health/mental retardation	616,844	20,000
Children and youth	1,751,809	78,147
HealthChoices-Cumberland County	—	—
Other non-major funds	<u>4,023,759</u>	<u>1,398,112</u>
	<u>6,949,292</u>	<u>9,363,713</u>
<b>Enterprise funds:</b>		
County nursing home	—	—
Emergency telephone	2,293,043	12,685
Other non-major funds	<u>134,063</u>	<u>—</u>
	<u>2,427,106</u>	<u>12,685</u>
<b>Total primary government</b>	<b><u>\$ 9,376,398</u></b>	<b><u>9,376,398</u></b>

### 8. Short-term Debt

On October 12 and October 13, 2005, the County issued two tax revenue anticipation notes in the amount of \$9,478,819 (each) related to the Pennsylvania Intergovernmental Medical Assistance Pooling Act. In connection with this Act, municipalities pool funds in order to facilitate medical assistance reimbursement from the Commonwealth of Pennsylvania. On October 12 and October 13, 2005, the County repaid \$9,478,819 (each) related to these tax revenue anticipation notes. There was no outstanding balance at December 31, 2005, related to the issuance of this short-term debt during 2005. Short-term debt activity for the year ended December 31, 2005, was as follows:

	<b>Beginning Balance</b>	<b>Issued</b>	<b>Redeemed</b>	<b>Ending Balance</b>
Tax revenue anticipation notes	\$ —	18,957,638	18,957,638	—

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### **9. Long-term Debt**

The following is a summary of the changes in the County's long-term liabilities for the year ended December 31, 2005:

<u>Liability</u>	<u>Balance January 1, 2005 (as restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds and notes payable:					
Bonds	\$ 12,061,985	-	(1,075,984)	10,986,001	1,292,893
Notes	715,000	1,698,615	-	2,413,615	116,858
Deferred amount on refundings	(49,459)	-	4,048	(45,411)	-
Premium on notes	-	3,227	(135)	3,092	-
Total bonds and notes payable	<u>12,727,526</u>	<u>1,701,842</u>	<u>(1,072,071)</u>	<u>13,357,297</u>	<u>1,409,751</u>
Sick and vacation	2,932,935	2,716,038	(2,584,094)	3,064,879	148,846
Capital leases	<u>12,747</u>	<u>44,930</u>	<u>(16,128)</u>	<u>41,549</u>	<u>18,928</u>
Governmental activity long-term liabilities	<u>\$ 15,673,208</u>	<u>4,462,810</u>	<u>(3,672,293)</u>	<u>16,463,725</u>	<u>1,577,525</u>
<b>Business-type activities:</b>					
Bonds and notes payable:					
Bonds	\$ 24,383,015	-	(13,879,016)	10,503,999	397,107
Notes	-	13,951,385	(260,000)	13,691,385	653,142
Deferred amount on refundings	(131,802)	(202,229)	23,268	(310,763)	-
Premium on notes	-	26,509	(972)	25,537	-
Total bonds and notes payable	<u>24,251,213</u>	<u>13,775,665</u>	<u>(14,116,720)</u>	<u>23,910,158</u>	<u>1,050,249</u>
Arbitrage payable	291,772	-	(230,719)	61,053	61,053
Sick and vacation	859,166	1,018,863	(997,999)	880,030	76,465
Workers' compensation	1,375,408	786,578	(545,197)	1,616,789	611,582
Capital leases	<u>30,999</u>	<u>-</u>	<u>(10,860)</u>	<u>20,139</u>	<u>11,761</u>
Business-type activity long-term liabilities	<u>\$ 26,808,558</u>	<u>15,581,106</u>	<u>(15,901,495)</u>	<u>26,488,169</u>	<u>1,811,110</u>
<b>Component unit:</b>					
Sick and vacation	\$ 44,304	28,742	(26,295)	46,751	2,537
Component unit Long-term liabilities	<u>\$ 44,304</u>	<u>28,742</u>	<u>(26,295)</u>	<u>46,751</u>	<u>2,537</u>

The long-term debt presentation reflects changes to beginning balances to reflect bonds payable amounts gross of deferred amounts on refundings. Additionally, deferred bond charges were reclassified from an offset to bond principal, as reported in prior years, to deferred charges, an asset. Within governmental activities, the January 1, 2005, balance of unamortized bond charges equaling \$217,009 was reduced by \$167,550 of deferred bond charges to calculate deferred amounts on refundings totaling \$49,459 at December 31, 2005. Within business-type activities, the January 1, 2005, balance of unamortized charges

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

equaling \$498,896 was reduced by \$367,094 of deferred bond charges to calculate deferred amounts on refundings totaling \$131,802 at December 31, 2005.

For the governmental activities, bonds are exclusively liquidated by the general fund. Sick and vacation liabilities and capital lease obligations are liquidated by the individual funds to which the related expenditures are charged.

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

The County is subject to federal arbitrage laws governing the use of proceeds of tax exempt debt.

All bonds and notes outstanding at December 31, 2005, are general obligation debt supported by the full faith and credit of the County and are summarized as follows:

	Interest Rate	Final Maturity	Original Issue	Governmental Activities	Business- type Activities
G.O. bonds – 2001 issue	Variable rate	2020	9,060,000	\$ —	6,490,000
G.O. bonds – 2002 issue	2.3% - 4.35%	2017	9,425,000	3,663,651	3,921,349
G.O. note – 2003 issue	5.857%	2022	715,000	715,000	—
G.O. bond – 2004 issue	2% - 4.55%	2019	7,930,000	7,322,350	92,650
G.O. note – 2005 issue	2.6% - 5%	2021	15,650,000	<u>1,698,615</u>	<u>13,691,385</u>
Long-term debt at December 31, 2005				13,399,616	24,195,384
Deferred amount on refundings				(45,411)	(310,763)
Premium on notes				<u>3,092</u>	<u>25,537</u>
Net long-term debt at December 31, 2005				<u>\$ 13,357,297</u>	<u>23,910,158</u>

Of the outstanding balance at December 31, 2005, of the 2001 bond issue, \$5,297,138 of the principal has been accounted for in the County nursing home fund and \$1,192,862 of the principal has been accounted for in the emergency telephone fund.

The 2001 bond issue has a variable interest rate that is determined weekly based upon the lowest rate of interest, which would cause the bonds to have a market value equal to the principal amount plus accrued

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

interest. The variable rate is capped at fifteen percent. The County has the option of converting the 2001 bonds to a fixed rate if certain conditions are met.

Of the outstanding balance at December 31, 2005, of the 2002 bond issue, \$2,472,765 of the principal has been accounted for in the County nursing home fund and \$1,448,584 of the principal has been accounted for in the emergency telephone fund. Principal of \$3,663,651 has been accounted for in the general fund.

In 2003, the County entered into a \$715,000 long-term installment purchase of an agricultural easement.

Of the outstanding balance at December 31, 2005, of the 2004 bond issue, \$92,649 of the principal has been accounted for in the County nursing home fund and \$7,322,350 has been accounted for in the general fund.

In 2005, the County issued general obligation notes – series 2005 in the amount of \$15,650,000 to retire the 2000 bond issue, the final payment of the 2001 bond issue, and the remainder to fund the County's energy program. The 2000 GOB and the final payment of the 2001 GOB were called and fully paid. The refunding resulted in a \$200,770 savings in debt service payments and an economic loss of \$1,344,346. The economic loss was calculated based on interest rates on the date of the new note issue (June 1). Although an economic loss is showing, the County is expecting interest rates to increase in the future and create an economic gain. The original debt had balloon principal payments and the new debt is structured with equal principal and interest payments. Of the outstanding balance at December 31, 2005, of the 2005 note issue, \$6,180,534 has been accounted for in the County nursing home fund, \$7,510,851 has been accounted for in the emergency telephone fund, and \$1,698,615 has been accounted for in the general fund.

The County's legal debt margin was \$339,134,942 as of December 31, 2005.

The annual debt service requirements for the next five years and thereafter in five-year increments on long-term debt outstanding as of December 31, 2005, including interest payments, are as follows:

		Governmental-type Activities		Business-type Activities	
		Principal	Interest	Principal	Interest
2006	\$ 1,409,751	475,677	1,050,248	962,476	
2007	1,440,301	439,202	1,079,699	937,178	
2008	1,489,527	394,035	1,110,473	908,248	
2009	1,011,969	352,204	1,633,031	873,141	
2010	1,045,742	317,598	1,689,258	812,869	
2011-2015	4,135,099	1,045,661	8,334,901	2,988,924	
2016-2020	2,152,227	369,066	8,187,773	1,275,306	
2021-2022	715,000	83,655	1,110,000	24,142	
Total	\$ 13,399,616	3,477,098	24,195,383	8,782,284	

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

#### **10. Deficit Net Assets**

The County's emergency telephone fund has net deficiency of \$4,066,401 at December 31, 2005. This deficit will be alleviated as debt service payments are made on the long term debt that financed the purchase of new 800 MHz radios for other County municipalities and other County offices. To the extent that the emergency telephone fund is unable to generate sufficient cash to fund future debt service payments and fully cover operating costs, additional transfers-in will be provided by the County's general fund.

#### **11. Leases**

##### **A. Operating**

The County leases office equipment and vehicles for various County offices and building space for certain County and district judge offices. The County's office equipment and vehicle lease terms range from three to five years. The County's building leases contain fixed scheduled rent payable monthly. Building leases have expiration dates extending through 2020. Total expenses for such leases were \$483,638 for the year ended December 31, 2005.

The following is a schedule of future minimum lease payments for operating leases with initial or remaining terms in excess of one year as of December 31, 2005:

<b>Year Ending December 31,</b>	<b>Lease Payments</b>
2006	\$ 547,308
2007	417,375
2008	331,781
2009	234,143
2010	161,115
2011-2015	559,273
2016-2020	<u>321,881</u>
 Total	 <u>\$ 2,572,876</u>

##### **B. Capital Lease Obligation**

The County financed the purchase of a time keeping system and domestic relations security equipment under a long-term capital lease in addition to leasing twelve vehicles under capital leases. Annual interest rates ranged from 2.96% to 24.92% on the County's capital leases in effect at December 31, 2005.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Asset:		
Machinery and equipment	\$ 456,956	1,350
Less: Accumulated depreciation	(395,166)	(675)
Machinery and equipment, net	<u>61,790</u>	<u>675</u>
Building and systems		\$ 7,995
Less: Accumulated depreciation		(1,399)
Buildings and systems, net	<u>6,596</u>	<u>6,596</u>

The following is a schedule of future minimum payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2005:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
2006	\$ 21,858	12,947
2007	17,331	8,631
2008	6,587	-
2009	549	-
Total minimum lease payments	<u>46,325</u>	<u>21,578</u>
Less amount representing interest	<u>(4,776)</u>	<u>(1,439)</u>
Present value of net minimum lease payments	<u>\$ 41,549</u>	<u>20,139</u>

## 12. Cumberland County Retirement Plan

### A. Plan Description

Cumberland County's Employees Retirement Trust Fund (the Plan) is a single employer defined benefit pension plan covered by the County Pension Law Act 96 of 1971 of the General Assembly of the Commonwealth of Pennsylvania, as amended. The Plan is reported as a pension trust fund in the accompanying basic financial statements and does not issue a stand-alone report.

As of December 31, 2005, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	375
Terminated plan members entitled to but not yet receiving benefits	98
Active plan members	<u>1,066</u>
Total	<u>1,539</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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All full-time employees are required to participate in the Plan. The pension plan provides pension benefits for normal retirement at age 60 (or 55 with 20 years of service) based on a formula including final average salary and years of credited service, in addition to the member's accumulated contribution to the Plan. The County share of the annual benefit is from 1% to 1.42% (depending on the date the employee entered into the plan) average of the employee's three highest annual salary times the years of service. Early retirement is available upon 20 years of service or after 8 years if involuntary termination. Members become vested after 5 years of service. County employees who terminate and choose to remain vested after 5 years of credited service will receive a deferred annuity commencing at retirement age. The Plan also provides for death and disability benefits. Cost-of-living adjustments for pensioners are provided at the discretion of the Retirement Board and must be reviewed once every 3 years.

#### ***B. Summary of Significant Accounting Policies***

Financial information of the County plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period on which the contributions are due. Employer contributions to the plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments of the plan are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

#### ***C. Funding Policy and Contributions***

As a condition of participation, employees are required to contribute 5% of their salary as stipulated in the County Pension Law. Employees may elect to contribute up to 15% of their salary. Interest is credited to the employee's account each year at the annual rate of 5.5% as voted upon by the County Retirement Board.

For 2005, the County's annual pension cost of \$2,421,626 was equal to the County's required and actual contribution. The required contribution was determined as part of the January 1, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected salary increases due to inflation of 3%, and (c) projected salary increases due to seniority/merit increases of 3.75% in 2005, increased by .25% increments over the next three years to a maximum of 4.5% attained for 2009 and later years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2005, was 29 years.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the Plan and funded from investments earnings.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2005

Three Year Trend Information for the Cumberland County Retirement Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$1,192,646	100%	\$0
12/31/04	2,084,919	100%	\$0
12/31/05	2,421,626	100%	\$0

The schedule of funding progress for the Cumberland County Retirement Fund is as follows:

<u>(1) Actuarial Valuation Date</u>	<u>(2) Actuarial Value of Assets</u>	<u>(3) Actuarial Accrued Liability-Entry Age</u>	<u>(4) Unfunded Actuarial Accrued Liability</u>	<u>(5) Funded Actuarial Liability Ratio (2/3)</u>	<u>(6) Covered Payroll</u>	<u>Liability as a Percentage of Covered Payroll (4/6)</u>
1/1/03(a)	N/A	N/A	N/A	N/A	N/A	N/A
1/1/04(a)	N/A	N/A	N/A	N/A	N/A	N/A
1/1/05	\$84,105,420	\$95,733,266	\$11,627,846	87.9%	\$40,117,850	29.0%

(a) prior to 2005, the aggregate actuarial cost method was used to determine the County's annual required contribution. Separate determination of the unfunded actuarial liability is not part of the aggregate cost method and as such, the unfunded actuarial liability for those years was not required to be reported.

### ***D. Historical Trend Information***

Historical trend information for the Plan is presented as required supplementary information on page 87 and 88 of this report.

### **13. Litigation**

The County is involved in several lawsuits arising in the normal course of business. It is the County solicitor's opinion that the aggregate amount of potential claims not covered by insurance resulting from actions against the County would not materially affect the financial position of the County at December 31, 2005.

### **14. Commitments and Contingencies**

#### ***Grants***

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Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

### 15. Self Insurance

#### *Workers' Compensation*

The County has established a workers' compensation fund (an internal service fund) to account for and finance its uninsured risks of loss due to employee claims. Under this program, the workers' compensation fund provides coverage for up to a maximum of \$400,000 for each individual worker's compensation occurrence. The County purchases commercial insurance for claims in excess of coverage provided by the fund. Settled claims have not exceeded this commercial coverage in the last three years of self-insurance.

All County employees are covered by the workers' compensation fund and funds of the County participate in the program and make payments to the workers' compensation fund based on estimates of the amounts needed to pay prior and current year claims. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors.

Changes in the fund's claims liability (net of excess insurance) for the two years ended December 31, 2005, were:

	<b>Beginning of Year Liability</b>	<b>Provision for Claims</b>		<b>Claim Payments</b>		<b>End of Year Liability</b>
		<b>Current Year</b>	<b>Prior Years</b>	<b>Current Year</b>	<b>Prior Years</b>	
2005	\$ 1,375,408	562,341	224,237	97,776	447,421	1,616,789
2004	\$ 1,270,365	523,627	31,347	88,902	361,029	1,375,408

### 16. Non-Recourse Debt

#### *A. Cumberland County Municipal Authority (MA)*

The MA was formed in 1987 pursuant to the Municipal Authorities Act and issues tax-exempt revenue bonds to provide financing to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. All the bond issues must be approved by the County Commissioners, but the County has no ongoing liability for these bonds nor guarantees the bonds.

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The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The MA has no on-going obligation for the bonds and does not include the debt in its financial statements.

As of December 31, 2005, there were twenty series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$367 million.

#### ***B. Cumberland County Industrial Development Authority (IDA)***

The IDA has entered into installment sales agreements (Agreements) with various parties (Buyers), whereunder the IDA agrees to sell to the Buyers certain premises, equipment, and other projects. The purchase price is payable in specified monthly installments over varying periods.

To finance the costs of the projects and related expenses, the IDA has borrowed from lending institutions (Banks), and has executed and delivered to the banks its promissory notes. In connection with such borrowings, the IDA has entered into loan agreements with the Buyers and, as security for payment of principal and interest on the notes, has, with the Buyers' consent, assigned and transferred to the Banks all of its rights, title, and interest in and installments payable under the Agreements, together with certain other receipts and revenues available to it under the Agreements.

The IDA, as a result of the assignments, has no on-going obligation for the debt and does not include the debt or related installment sales agreements in the financial statements of its operating fund. As of December 31, 2005, the projects had \$61,643,364 in outstanding principal balances.

#### **17. Subsequent Events**

On May 15, 2006, the County Commissioners approved advertising for a \$9.9 million general obligation bond issue expected to be issued in the third quarter of 2006. The proceeds will provide \$2 million of matching funds for farmland preservation, \$1 million for voting machine procurement and financing for prison architectural/engineering and initial construction management, building acquisition and other capital projects.