

## Independent Auditors' Report

The Commissioners  
County of Cumberland

We have audited the general purpose financial statements of the County of Cumberland, Pennsylvania (the County) as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the County of Cumberland Industrial Development Authority (IDA), which represents 51% of the assets and 3% of the revenues of the component units. The financial statements of the IDA were audited by other auditors whose report thereon was furnished to us, and our opinion herein, insofar as it relates to the amounts included for the IDA, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

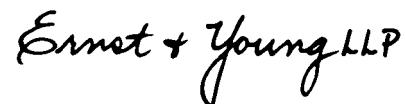
In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of Cumberland, Pennsylvania as of December 31, 2002, and the results of its operations and cash flows of its proprietary funds 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 March 28, 2003 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

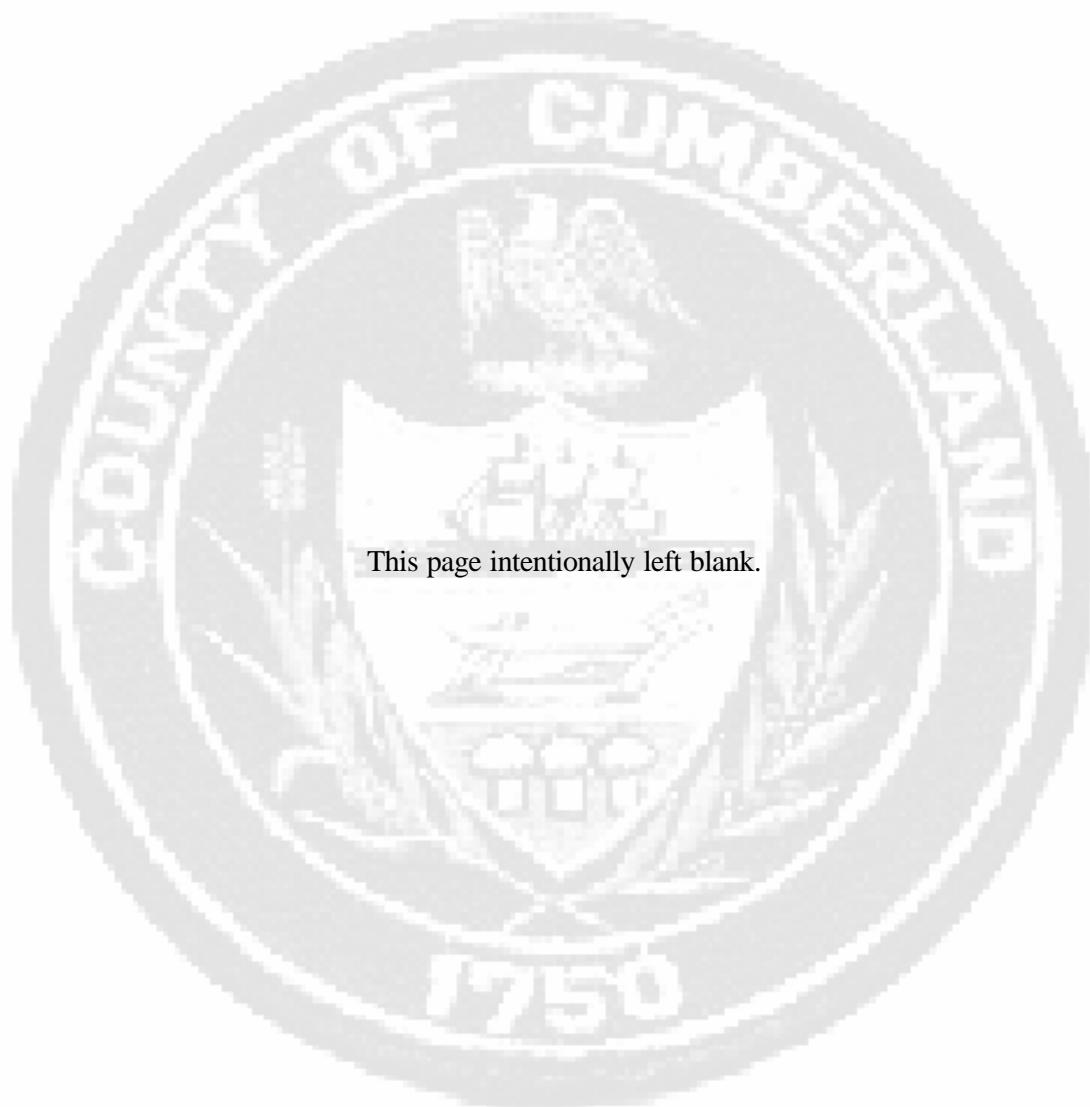
Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. Combining and individual fund financial statements and account group schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the County of Cumberland, Pennsylvania. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The Employee's Retirement Plan 1997-2002 information on page 75 is not a required part of the general purpose financial statements, but is required supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, we express no opinion thereon.



March 28, 2003



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**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Balance Sheet – All Fund Types, Account Groups,  
and Discretely Presented Component Units

December 31, 2002

Assets and Other Debits	Governmental fund types				Proprietary fund types		Fiduciary fund type	Account groups		Totals (memorandum only)	Component unit		Totals (memorandum only)
	General	Special revenue	Debt service	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term debt		Governmental	Enterprise Development Authority	
													Reporting entity
Assets:													
Cash and cash equivalents	\$ 4,900,992	4,687,401	7,716	731,031	1,122,374	1,088,727	6,465,222	—	—	19,003,463	367,897	90,070	19,461,430
Restricted assets:													
Cash and cash equivalents	—	—	—	—	2,362,406	139,002	—	—	—	2,501,408	—	—	2,501,408
Investments	603,180	1,000,000	—	—	4,265,012	—	—	—	—	5,868,192	—	—	5,868,192
Investments	340,000	1,819,000	—	—	—	—	64,256,511	—	—	66,415,511	—	70,184	66,485,695
Due from other funds	2,323,654	2,028,539	—	2,089	51,291	180,258	—	—	—	4,585,831	—	—	4,585,831
Due from component unit	58,093	—	—	—	—	—	—	—	—	58,093	—	—	58,093
Notes receivable	—	—	—	—	—	—	—	—	—	—	—	343,682	343,682
Accrued interest receivable	—	—	—	—	1,781	—	280,516	—	—	282,297	—	—	282,297
Due from other governments	218,376	2,671,199	—	—	—	13,365	—	—	—	2,902,940	50,087	—	2,953,027
Taxes receivable	1,351,393	40,000	—	—	—	—	—	—	—	1,391,393	—	—	1,391,393
Accounts receivable	772,925	1,433,266	—	—	3,153,283	57,730	—	—	—	5,417,204	63,530	—	5,480,734
Prepaid items	113,338	5,045	—	300	39,374	—	—	—	—	158,057	1,344	—	159,401
Fixed assets, net of depreciation	—	—	—	—	24,472,000	853,152	—	18,503,522	—	43,828,674	—	—	43,828,674
Other assets	15,944	—	—	—	420,571	—	—	—	—	436,515	—	—	436,515
Other debits:													
Amount to be provided for retirement of general long-term debt	—	—	—	—	—	—	—	—	13,267,522	13,267,522	—	—	13,267,522
Amount available in the Debt Service Fund	—	—	—	—	—	—	—	—	4,365	4,365	—	—	4,365
Total assets and other debits	\$ 10,697,895	13,684,450	7,716	3,095,826	33,664,688	2,193,232	71,002,249	18,503,522	13,271,887	166,121,465	482,858	503,936	167,108,259

(Continued)

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Balance Sheet – All Fund Types, Account Groups,  
and Discretely Presented Component Units

December 31, 2002

Liabilities, Fund Equity and Other Credits	Governmental fund types				Proprietary fund types		Fiduciary fund type	Account groups		Totals (memorandum only)	Component units		Totals (memorandum only)
	General		Special revenue	Debt service	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term debt	Governmental	Enterprise Industrial Development Authority	
	General	Special revenue	Debt service	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term debt	Primary government	Conservation District	Industrial Development Authority	Reporting entity
Liabilities:													
Accounts payable	\$ 1,036,232	4,163,976	—	62,389	758,922	25,336	—	—	—	6,046,855	51,153	—	6,098,008
Accrued liabilities and withholdings	842,283	69,603	—	—	955,253	1,044,045	—	—	2,610,456	5,521,640	2,236	—	5,523,876
Due to other funds	11,885	2,169,352	3,351	224,898	1,712,238	—	464,107	—	—	4,585,831	—	—	4,585,831
Capital lease obligation	—	—	—	—	50,285	—	—	—	113,581	163,866	—	—	163,866
Due to other governments	630,380	—	—	—	—	—	934,181	—	—	1,564,561	—	—	1,564,561
Due to primary government	—	—	—	—	—	—	—	—	—	—	58,093	—	58,093
Deferred taxes	1,093,809	—	—	—	—	—	—	—	—	1,093,809	—	—	1,093,809
Deferred revenue	129,430	3,169,274	—	—	66,738	12,437	—	—	—	3,377,879	69,797	—	3,447,676
Other liabilities	—	2,005	—	—	—	—	—	—	—	2,005	—	—	2,005
Funds held as fiduciary	115,205	—	—	—	246,307	—	787,034	—	—	1,148,546	—	—	1,148,546
Long-term debt	—	—	—	—	24,889,165	—	—	—	10,547,850	35,437,015	—	—	35,437,015
Total liabilities	3,859,224	9,574,210	3,351	287,287	28,678,908	1,081,818	2,185,322	—	13,271,887	58,942,007	181,279	—	59,123,286
Fund equity and other credits:													
Investment in fixed assets	—	—	—	—	—	—	—	18,503,522	—	18,503,522	—	—	18,503,522
Contributed capital	—	—	—	—	2,525,400	242,736	—	—	—	2,768,136	—	—	2,768,136
Retained earnings:													
Reserved for capital contributions	—	—	—	—	731,000	—	—	—	—	731,000	—	—	731,000
Unreserved	—	—	—	—	1,729,380	868,678	—	—	—	2,598,058	—	503,936	3,101,994
Fund balance:													
Reserved for pension benefits	—	—	—	—	—	—	68,178,087	—	—	68,178,087	—	—	68,178,087
Reserved for prepaid items	113,338	—	—	—	—	—	—	—	—	113,338	—	—	113,338
Reserved for debt service	—	—	4,365	—	—	—	—	—	—	4,365	—	—	4,365
Reserved for restricted contributions	—	397,503	—	—	—	—	—	—	—	397,503	—	—	397,503
Reserved for farmland preservation	435,351	—	—	—	—	—	—	—	—	435,351	—	—	435,351
Reserved for offenders' supervision	481,803	—	—	—	—	—	—	—	—	481,803	—	—	481,803
Reserved for criminal investigation	130,663	—	—	—	—	—	—	—	—	130,663	—	—	130,663
Reserved for landfill closure	—	—	—	—	—	638,840	—	—	—	638,840	—	—	638,840
Reserved for capital projects	—	—	—	2,808,539	—	—	—	—	—	2,808,539	—	—	2,808,539
Unreserved	5,677,516	3,712,737	—	—	—	—	—	—	—	9,390,253	301,579	—	9,691,832
Total fund equity and other credits	6,838,671	4,110,240	4,365	2,808,539	4,985,780	1,111,414	68,816,927	18,503,522	—	107,179,458	301,579	503,936	107,984,973
Total liabilities, fund equity and other credits	\$ 10,697,895	13,684,450	7,716	3,095,826	33,664,688	2,193,232	71,002,249	18,503,522	13,271,887	166,121,465	482,858	503,936	167,108,259

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Statement of Revenues, Expenditures, and Changes  
in Fund Balances – All Governmental Fund Types, Expendable Trust Fund, and Discretely  
Presented Component Units

For the year ended December 31, 2002

	Governmental fund types				Fiduciary fund type	Totals (memorandum only)	Governmental Component unit		Total (memorandum only)
	General	Special revenue	Debt service	Capital projects			Primary government	Conservation District	
					Expendable trust				
<b>Revenues:</b>									
Taxes	\$ 26,947,187	804,663	—	—	—	27,751,850	—	27,751,850	
Licenses and permits	110,231	—	—	—	—	110,231	14,000	124,231	
Grants	3,822,213	46,725,515	—	—	—	50,547,728	465,114	51,012,842	
County charges	5,408,697	1,863,147	—	—	—	7,271,844	72,617	7,344,461	
Court costs, fines and forfeits	1,048,134	301,640	—	—	—	1,349,774	—	1,349,774	
Interest	411,843	202,844	3,776	15,826	24,874	659,163	5,676	664,839	
Contributions and other	765,954	810,739	—	—	—	1,576,693	542	1,577,235	
Total revenues	<u>38,514,259</u>	<u>50,708,548</u>	<u>3,776</u>	<u>15,826</u>	<u>24,874</u>	<u>89,267,283</u>	<u>557,949</u>	<u>89,825,232</u>	
<b>Expenditures:</b>									
Current:									
General government – administrative	6,931,320	59,390	—	60,000	—	7,050,710	—	7,050,710	
General government – judicial	10,549,570	3,230,074	—	—	—	13,779,644	—	13,779,644	
Public safety	8,975,357	—	—	—	—	8,975,357	—	8,975,357	
Public works and enterprises	—	1,200,707	—	—	—	1,200,707	—	1,200,707	
Human services	1,372,029	47,300,903	—	—	—	48,672,932	—	48,672,932	
Culture and recreation	1,421,032	804,353	—	—	—	2,225,385	—	2,225,385	
Conservation and development	1,251,636	714,228	—	—	2,783	1,968,647	659,448	2,628,095	
Other	14,591	—	4,624	—	—	19,215	—	19,215	
Debt service	—	—	3,001,453	—	—	3,001,453	—	3,001,453	
Capital outlay	—	—	—	340,760	—	340,760	—	340,760	
Total expenditures	<u>30,515,535</u>	<u>53,309,655</u>	<u>3,006,077</u>	<u>400,760</u>	<u>2,783</u>	<u>87,234,810</u>	<u>659,448</u>	<u>87,894,258</u>	
Excess (deficiency) of revenues over expenditures	<u>7,998,724</u>	<u>(2,601,107)</u>	<u>(3,002,301)</u>	<u>(384,934)</u>	<u>22,091</u>	<u>2,032,473</u>	<u>(101,499)</u>	<u>1,930,974</u>	
<b>Other financing sources (uses):</b>									
Operating transfers in	604,487	3,159,648	2,925,552	250,000	—	6,939,687	—	6,939,687	
Transfer to component units	(49,015)	—	—	—	—	(49,015)	—	(49,015)	
Transfer from primary government	—	—	—	—	—	—	49,015	49,015	
Operating transfers out	(7,456,338)	(384,720)	—	(137,574)	—	(7,978,632)	—	(7,978,632)	
Proceeds from capital leases	—	25,435	—	—	—	25,435	—	25,435	
Proceeds from issuance of long-term debt	—	—	2,439,610	2,301,189	—	2,301,189	—	2,301,189	
Proceeds from refunding bonds	—	—	(2,367,358)	—	—	2,439,610	—	2,439,610	
Payment to refunded bond escrow agent	—	—	—	—	—	(2,367,358)	—	(2,367,358)	
Total other financing sources (uses)	<u>(6,900,866)</u>	<u>2,800,363</u>	<u>2,997,804</u>	<u>2,413,615</u>	<u>—</u>	<u>1,310,916</u>	<u>49,015</u>	<u>1,359,931</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>1,097,858</u>	<u>199,256</u>	<u>(4,497)</u>	<u>2,028,681</u>	<u>22,091</u>	<u>3,343,389</u>	<u>(52,484)</u>	<u>3,290,905</u>	
Fund balances, beginning of year	<u>5,740,813</u>	<u>3,910,984</u>	<u>8,862</u>	<u>779,858</u>	<u>616,749</u>	<u>11,057,266</u>	<u>354,063</u>	<u>11,411,329</u>	
Fund balances, end of year	<u>\$ 6,838,671</u>	<u>4,110,240</u>	<u>4,365</u>	<u>2,808,539</u>	<u>638,840</u>	<u>14,400,655</u>	<u>301,579</u>	<u>14,702,234</u>	

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Statement of Revenues, Expenditures, and Changes  
in Fund Balances – All Budgeted Governmental Fund Types –  
Budget and Actual (Budget Basis)

For the year ended December 31, 2002

	General Fund			Special Revenue Funds			Debt Service Fund			Capital Projects Fund		
	Budget	Actual	Variance– favorable (unfavorable)	Budget	Actual	Variance– favorable (unfavorable)	Budget	Actual	Variance– favorable (unfavorable)	Budget	Actual	Variance– favorable (unfavorable)
Revenues:												
Taxes	\$ 27,754,571	28,274,412	519,841	941,472	804,663	(136,809)	—	—	—	—	—	—
Licenses and permits	105,841	110,231	4,390	—	—	—	—	—	—	—	—	—
Grants	4,188,717	3,822,213	(366,504)	42,095,732	46,725,515	4,629,783	—	—	—	—	—	—
County charges	4,976,514	5,867,151	890,637	1,481,988	1,863,147	381,159	—	—	—	—	—	—
Court costs, fines and forfeits	890,460	888,751	(1,709)	325,260	301,640	(23,620)	—	—	—	—	—	—
Interest	498,093	411,220	(86,873)	192,226	202,844	10,618	5,000	3,776	(1,224)	37,250	15,826	(21,424)
Contributions and other	1,698,221	1,573,827	(124,394)	509,645	810,739	301,094	—	—	—	—	—	—
Total revenues	<u>40,112,417</u>	<u>40,947,805</u>	<u>835,388</u>	<u>45,546,323</u>	<u>50,708,548</u>	<u>5,162,225</u>	<u>5,000</u>	<u>3,776</u>	<u>(1,224)</u>	<u>37,250</u>	<u>15,826</u>	<u>(21,424)</u>
Expenditures:												
Current:												
General government – administrative	8,441,975	7,739,193	702,782	90,202	59,390	30,812	—	—	—	—	60,000	(60,000)
General government – judicial	11,363,550	10,416,252	947,298	3,379,467	3,230,074	149,393	—	—	—	—	—	—
Public safety	9,010,699	8,975,357	35,342	—	—	—	—	—	—	—	—	—
Public works and enterprises	—	—	—	1,761,586	1,200,707	560,879	—	—	—	—	—	—
Human services	929,236	1,372,029	(442,793)	42,819,562	47,300,903	(4,481,341)	—	—	—	—	—	—
Culture and recreation	3,184,946	3,206,711	(21,765)	941,472	804,353	137,119	—	—	—	—	—	—
Conservation and development	1,267,683	1,251,636	16,047	1,076,967	714,228	362,739	—	—	—	—	—	—
Other	47,163	14,591	32,572	—	—	—	—	4,624	(4,624)	—	—	—
Debt service	—	—	—	—	—	—	2,995,037	3,001,453	(6,416)	—	—	—
Capital outlay	—	—	—	—	—	—	—	—	535,000	340,760	194,240	—
Total expenditures	<u>34,245,252</u>	<u>32,975,769</u>	<u>1,269,483</u>	<u>50,069,256</u>	<u>53,309,655</u>	<u>(3,240,399)</u>	<u>2,995,037</u>	<u>3,006,077</u>	<u>(11,040)</u>	<u>535,000</u>	<u>400,760</u>	<u>134,240</u>
Excess (deficiency) of revenues over expenditures	<u>5,867,165</u>	<u>7,972,036</u>	<u>2,104,871</u>	<u>(4,522,933)</u>	<u>(2,601,107)</u>	<u>1,921,826</u>	<u>(2,990,037)</u>	<u>(3,002,301)</u>	<u>(12,264)</u>	<u>(497,750)</u>	<u>(384,934)</u>	<u>112,816</u>
Other financing sources (uses):												
Operating transfers in	521,200	604,487	83,287	3,350,042	3,159,648	(190,394)	2,922,737	2,925,552	2,815	2,300,000	250,000	(2,050,000)
Transfer out to component units	(49,015)	(49,015)	—	—	—	—	—	—	—	—	—	—
Operating transfers out	(6,689,595)	(7,456,338)	(766,743)	(304,962)	(384,720)	(79,758)	(2,305,000)	—	2,305,000	(137,873)	(137,574)	299
Proceeds from capital leases	—	—	—	—	25,435	25,435	—	—	—	—	—	—
Proceeds from the issuance of long-term debt	—	—	—	—	—	—	—	—	—	2,301,189	2,301,189	—
Proceeds from refunding bonds	—	—	—	—	—	—	4,740,800	2,439,610	(2,301,190)	—	—	—
Payment to refunded bond escrow agent	—	—	—	—	—	—	(2,368,000)	(2,367,358)	642	—	—	—
Other	10,833	—	(10,833)	—	—	—	—	—	—	—	—	—
Total other financing sources (uses)	<u>(6,206,577)</u>	<u>(6,900,866)</u>	<u>(694,289)</u>	<u>3,045,080</u>	<u>2,800,363</u>	<u>(244,717)</u>	<u>2,990,537</u>	<u>2,997,804</u>	<u>7,267</u>	<u>2,162,127</u>	<u>2,413,615</u>	<u>251,488</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(339,412)</u>	<u>1,071,170</u>	<u>1,410,582</u>	<u>(1,477,853)</u>	<u>199,256</u>	<u>1,677,109</u>	<u>500</u>	<u>(4,497)</u>	<u>(4,997)</u>	<u>1,664,377</u>	<u>2,028,681</u>	<u>364,304</u>
Fund balances, beginning of year	<u>4,505,410</u>	<u>5,645,061</u>	<u>1,139,651</u>	<u>3,319,746</u>	<u>3,910,984</u>	<u>591,238</u>	<u>10,293</u>	<u>8,862</u>	<u>(1,431)</u>	<u>903,084</u>	<u>779,858</u>	<u>(123,226)</u>
Fund balances, end of year	<u>\$ 4,165,998</u>	<u>6,716,231</u>	<u>2,550,233</u>	<u>1,841,893</u>	<u>4,110,240</u>	<u>2,268,347</u>	<u>10,793</u>	<u>4,365</u>	<u>(6,428)</u>	<u>2,567,461</u>	<u>2,808,539</u>	<u>241,078</u>

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Statement of Revenues, Expenses, and Changes in  
Retained Earnings – All Proprietary Fund Types

For the year ended December 31, 2002

	<b>Proprietary fund types</b>		<b>Total (memorandum only)</b>
	<b>Enterprise</b>	<b>Internal service</b>	
Operating revenues:			
County charges	\$ 19,277,844	640,052	19,917,896
Rentals and other revenues	12,900	743,623	756,523
Total operating revenues	<u>19,290,744</u>	<u>1,383,675</u>	<u>20,674,419</u>
Operating expenses:			
Patient/client services	16,589,922	1,222,398	17,812,320
Loss and loss adjusting	—	647,680	647,680
Depreciation	1,358,733	245,751	1,604,484
Administrative	2,917,471	72,331	2,989,802
Total operating expenses	<u>20,866,126</u>	<u>2,188,160</u>	<u>23,054,286</u>
Operating loss	<u>(1,575,382)</u>	<u>(804,485)</u>	<u>(2,379,867)</u>
Nonoperating revenues (expenses):			
Grant revenue	510,984	1,082,471	1,593,455
Interest income	202,099	14,172	216,271
Interest expense	(492,932)	—	(492,932)
Payments to municipalities	(185,117)	—	(185,117)
Other	92,420	—	92,420
Total net nonoperating revenues (expenses)	<u>127,454</u>	<u>1,096,643</u>	<u>1,224,097</u>
Income (loss) before operating transfers	<u>(1,447,928)</u>	<u>292,158</u>	<u>(1,155,770)</u>
Operating transfers in	1,669,790	26,040	1,695,830
Operating transfers out	<u>(656,885)</u>	<u>—</u>	<u>(656,885)</u>
Net income (loss)	<u>(435,023)</u>	<u>318,198</u>	<u>(116,825)</u>
Depreciation on fixed assets acquired by contributions and capital grants	<u>19,685</u>	<u>172,234</u>	<u>191,919</u>
Increase (decrease) in retained earnings	<u>(415,338)</u>	<u>490,432</u>	<u>75,094</u>
Retained earnings, beginning of year	<u>2,875,718</u>	<u>378,246</u>	<u>3,253,964</u>
Retained earnings, end of year	<u>\$ 2,460,380</u>	<u>868,678</u>	<u>3,329,058</u>

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Statement of Cash Flows –  
All Proprietary Fund Types

For the year ended December 31, 2002

	<b>Proprietary fund types</b>		<b>Total (memorandum only)</b>
	<b>Enterprise</b>	<b>Internal service</b>	
Cash flows from operating activities:			
Operating loss	\$ (1,575,382)	(804,485)	(2,379,867)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense	1,358,733	245,751	1,604,484
Amortization of bond issuance costs	12,370	—	12,370
Nonoperating expenses	(92,697)	—	(92,697)
Loss on disposal of fixed assets	79,953	1,312	81,265
Change in assets and liabilities:			
Due from other funds	42,351	—	42,351
Due from other governments	624,462	—	624,462
Accounts receivable	(7,448)	(56,030)	(63,478)
Prepaid items	159,235	—	159,235
Other assets	28,045	—	28,045
Accounts payable	(270,058)	(7,420)	(277,478)
Accrued liabilities and withholdings	(453,585)	96,719	(356,866)
Due to other funds	802,091	(229,434)	572,657
Due to other governments	—	91,588	91,588
Funds held as fiduciary	(50,347)	—	(50,347)
Deferred revenue	(1,339)	(15,524)	(16,863)
Net cash provided by (used in) operating activities	<u>656,384</u>	<u>(677,523)</u>	<u>(21,139)</u>
Cash flows from capital financing activities:			
Capital grants	491,906	294,600	786,506
Purchases of fixed assets	(6,717,200)	(430,371)	(7,147,571)
Principal repayments – long-term debt	(4,779,605)	—	(4,779,605)
Proceeds from capital lease	53,211	—	53,211
Bond issuance costs	4,684,200	—	4,684,200
Contributions and capital grants	(160,086)	—	(160,086)
Interest paid	(492,932)	—	(492,932)
Net cash used in capital financing activities	<u>(6,920,506)</u>	<u>(135,771)</u>	<u>(7,056,277)</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Combined Statement of Cash Flows –  
All Proprietary Fund Types

For the year ended December 31, 2002

	<b>Proprietary fund types</b>		<b>Total (memorandum only)</b>
	<b>Enterprise</b>	<b>Internal service</b>	
(Continued)			
Cash flows from noncapital financing activities:			
Operating grants received	\$ 19,078	787,871	806,949
Operating transfers in	1,669,790	26,040	1,695,830
Operating transfers out	(656,885)	—	(656,885)
Net cash provided by noncapital financing activities	<u>1,031,983</u>	<u>813,911</u>	<u>1,845,894</u>
Cash flows from investing activities:			
Sale of investments	5,673,463	—	5,673,463
Purchases of investments	(341,356)	—	(341,356)
Investment income received	202,099	14,172	216,271
Total cash provided by investing activities	<u>5,534,206</u>	<u>14,172</u>	<u>5,548,378</u>
Net increase in cash and cash equivalents	<u>302,067</u>	<u>14,789</u>	<u>316,856</u>
Cash and cash equivalents, beginning of year	<u>959,309</u>	<u>1,073,938</u>	<u>2,033,247</u>
Cash and cash equivalents, end of year	<u>\$ 1,261,376</u>	<u>1,088,727</u>	<u>2,350,103</u>

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Changes in Net Assets - Pension Trust Fund

For the year ended December 31, 2002

Additions:

Contributions:

Employer	\$ 53,411
Plan members	<u>1,845,741</u>
Total contributions	<u>1,899,152</u>

Investment income:

Net depreciation in fair value of investments	(7,630,110)
Interest	1,285,628
Dividends	<u>731,194</u>
Net investment loss	<u>(5,613,288)</u>
Total additions	<u>(3,714,136)</u>

Deductions:

Benefits	2,513,828
Refunds of contributions	531,320
Administrative expenses	<u>295,023</u>
Total deductions	<u>3,340,171</u>
Net decrease	<u>(7,054,307)</u>

Net assets reserved for pension benefits:

Beginning of year	<u>75,232,394</u>
End of year	<u>\$ 68,178,087</u>

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Discretely Presented Component Units –  
Statement of Revenues, Expenses and Changes in Retained Earnings

For the year ended December 31, 2002

	<b><u>Cumberland County Industrial Development Authority</u></b>
Operating revenues	
Interest	\$ 18,413
Contributions and other	892
Total operating revenues	<u>19,305</u>
Operating expenses:	
Administrative	21,000
Professional fees	13,432
Meeting expenses	566
Office expense	189
Advertising	38
Total operating expenses	<u>35,225</u>
Operating loss	<u>(15,920)</u>
Nonoperating revenues	
Interest income	<u>3,142</u>
Net loss	(12,778)
Retained earnings, beginning of year	<u>516,714</u>
Retained earnings, end of year	\$ <u>503,936</u>

See accompanying notes to general purpose financial statements.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

**Discretely Presented Component Units –  
Statement of Cash Flows**

For the year ended December 31, 2002

	<b>Cumberland County Industrial Development Authority</b>
Cash flows from operating activities:	
Operating loss	\$ (15,920)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Note payments received	<u>7,872</u>
Net cash used in operating activities	<u>(8,048)</u>
Cash flows from investing activities:	
Maturity of investments	68,941
Purchase of investments	(71,160)
Investment interest	<u>3,142</u>
Net cash provided by investing activities	<u>923</u>
Net decrease in cash and cash equivalents	<u>(7,125)</u>
Cash and cash equivalents, beginning of year	<u>97,195</u>
Cash and cash equivalents, end of year	<u>\$ 90,070</u>

See accompanying notes to general purpose financial statements.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(1) 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 213,674 residents, including various general governmental services, health and welfare, and community enrichment programs.

The general purpose financial statements of the County of Cumberland include the accounts of all County operations. The County's major operations include administrative and judicial general government, public safety, public works and enterprises, human services, culture and recreation, and conservation and development. In addition, the County owns and operates the Cumberland County Nursing Home and the County Prison.

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. In determining financial accountability in a given case, the County reviews the applicability of the following criteria:

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

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

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

- Organizations that are fiscally dependent on the County. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the County.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

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

The component units discussed below are included in the County's reporting entity. These component units have been included in the financial reporting entity as discretely presented component units.

#### ***(a) Blended Component Units***

Some component units, despite being legally separate from the primary government (County), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government.

The Mental Health/Mental Retardation and Drug and Alcohol programs which have substantially the same governing body as the primary government, are component units that are reported in this way in the General Purpose Financial Statements.

#### ***(b) Discretely Presented Component Units***

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

#### **Cumberland County Conservation District (Governmental Fund Type)**

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. 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. No separate financial statements are prepared for the District.

#### **Cumberland County Industrial Development Authority (IDA) (Proprietary Fund Type)**

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

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.

**(c) *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 and sanitary 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.

The Housing Authority oversees low-rent, subsidized housing projects established 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 no-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.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to General Purpose Financial Statements

December 31, 2002

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.

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

- Affordable Housing Trust Fund Board
- Aging Advisory Board
- Agricultural Land Preservation Board
- Capital Area Behavioral Health Collaborative Board
- Children Services Citizen Advisory Committee
- Central Cumberland County Task Force on Regional Development
- Conservation and Open Space Task Force
- Economic Development Steering Committee
- Economic Development Task Force
- Harrisburg Area Transportation Study Technical Committee
- LeTort Regional Authority
- Local Emergency Planning Committee
- Municipal Authority
- Open Space Preservation Plan Steering Committee
- Planning Commission
- Susquehanna Area Regional Airport Authority Board
- Solid Waste Authority
- Transportation Authority
- Tri-County Attendant Care Advisory Committee
- Tri-County Regional Planning Commission
- Vacant Property Reinvestment Board

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### *(d) 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.

To the extent CAT cannot be funded or reimbursed by State or federal subsidies, the County will pay a percentage of the costs of organization and operations. In 2002 the County paid 27 % of the expenditures or \$229,778 to the Authority. 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 2002 audited financial statements are:

Fiscal year:	June 30, 2002
Current assets:	\$ 2,297,180
Fixed assets, net:	13,834,266
Total assets:	16,131,446
Equity:	13,579,888
Operating revenue:	6,288,632
Operating loss:	(7,355,424)
Net loss:	(175,866)
Cumberland County Contribution to operations:	\$ <u>229,778</u>

CAT disclosed an unrestricted accumulated deficit of \$1,239,728 as of June 30, 2002. The ability of CAT to meet its obligations as they are due is dependent upon the Authority obtaining funding to eliminate the unrestricted accumulated deficit.

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(2) Summary of Significant Accounting Policies**

The accounting policies of the County conform with accounting principles generally accepted in the United States applicable to governmental units.

##### ***(a) Fund Accounting***

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund categories and seven generic fund types as follows:

#### **Governmental Funds**

##### ***(i) General Fund***

The General Fund, which is the principal fund of the County, accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the County, other than special revenue and proprietary fund activities, are financed through revenues of the General Fund.

##### ***(ii) Special Revenue Funds***

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The following are used to account for these financial activities:

- The Liquid Fuels Tax Fund accounts for state aid revenues used for building and improving roads and bridges.
- The Domestic Relations Office Fund accounts for expenditures and reimbursement revenue related to the operation of the County's Child Support Enforcement Program, which is funded with federal, state and County funds.
- The human service-related special revenue funds are used to account for revenue received from various federal, state, and local sources. These funds,

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

which are restricted for the provision of specified social services to eligible County residents, are as follows:

- Office of Aging Fund
- Children Services Fund
- Human Services Development Fund
- Food and Shelter Fund
- HealthChoices Fund
- Mental Health and Mental Retardation Fund (MH/MR Fund)
- Drug and Alcohol Fund

The MH/MR Fund and Drug and Alcohol fund were reclassified from joint ventures to special revenue as of January 1, 2002. These reclassifications had no impact on fund balances as of January 1, 2002 as both funds had zero fund balance.

- The courts and justices-related special revenue funds are used to account for revenue received from various federal and state sources and fines and costs collected from the general public. These funds, which are restricted to providing specified judicial services, are as follows:
  - Central Booking Fund
  - Witness Assistance Fund
  - Accelerated Rehabilitative Disposition/Driving Under the Influence (ARD/DUI) Program Fund
- The Records Improvement Fund accounts for fees collected to record deeds and are used to fund record improvement projects within the County.
- The Solid Waste Fund accounts for revenues received from system fees and operating grants to fund the operation of the County Solid Waste Plan.
- The Affordable Housing Fund accounts for revenues received from fees charged for recording deeds and mortgages to finance affordable housing efforts in the County.
- The Exit 44 Study Fund accounts for proceeds from an infrastructure bank loan to fund preliminary engineering and environmental study work to initiate a new interchange for a local interstate highway.
- The Hotel Tax Fund accounts for revenues received from the hotel occupancy tax to fund countywide tourism promotion (50%), the County's economic

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to General Purpose Financial Statements

December 31, 2002

development office (10%), contributions to the Army Heritage Foundation (30%), and to promote regional mass transit (10%).

#### ***(iii) Debt Service Fund***

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

#### ***(iv) Capital Projects Fund***

The Capital Projects Fund accounts for the financial resources used for acquisition and capital construction of major capital facilities (other than those financed by proprietary funds).

### **Proprietary Funds**

#### ***(i) Enterprise Funds***

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the County is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans. The following are used to account for these financial activities:

- The County Nursing Home Fund accounts for long-term nursing care provided to its residents.
- The Cumberland County Early Learning Center Fund, financed by tuition and County subsidy, accounts for the developmental experiences provided to employees' infants, toddlers and pre-schoolers.
- The 911 Fund, financed by a telephone charge to County residents and County subsidy, accounts for the operation of the emergency response communications system in the County.
- The Hazardous Materials Fund, financed by grants and fees charged to responsible parties, accounts for the cost of monitoring of the storage of hazardous materials in the County and the operation of response teams.,

#### ***(ii) Internal Service Funds***

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other County departments or agencies or to other governments on a cost reimbursement basis. The following are used to account for these financial activities:

- The Transportation Department Fund accounts for the cost of transportation services primarily provided to clients of various County agencies and is reimbursed by those agencies for the services provided. It also accounts for the cost of transportation provided to its own clients, financed by user fees and grants.
- The Workers' Compensation Fund accounts for the County's risk management activities related to liabilities incurred as a result of workplace injuries.

### Fiduciary Funds

#### *(i) Trust and Agency Funds*

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. These include pension trust and expendable trust trusts, and agency funds. The pension trust is accounted for on the accrual basis of accounting. The landfill post closure trust and agency funds are accounted for on the modified accrual basis.

- The Employees Retirement Trust Fund is a pension trust fund used to account for the retirement contributions of the County and its employees.
- The Landfill Post Closure Expendable Trust Fund is used to account for investment income and contributions made by municipal landfill owners to the County. The funds are to be utilized by the County to monitor the closure of landfills.
- Agency funds are custodial in nature and do not involve measurement of results of operations. Agency funds are used to account for fees, fines, taxes, grants and other monies collected by elected row officers that are subsequently disbursed to the County, other governments or other not-for-profit entities or citizens for whom they were collected, except for Perry County HealthChoices funds, which are collected and administered by the Cumberland/Perry Mental Health and Mental Retardation Office. These funds are as follows:

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

- Perry County HealthChoices
- Clerk of Court
- Prothonotary
- Recorder of Deeds
- Treasurer
- Register of Wills
- Sheriff
- District Attorney
- The Prison Work Release and Inmate Accounts are reported as agency funds for the first time in 2002. The addition of these two funds increased the beginning balance of the total agency funds by \$51,230.
- The Prison Work Release is used to administer funds earned by inmates who participate in the work release program at the Cumberland County Prison.
- The Inmate Accounts are used to administer funds received on behalf of the inmates at the Cumberland County Prison.

#### ***(b) Measurement Focus, Fixed Assets, and Long-term Liabilities***

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities generally are included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group rather than in governmental funds. Infrastructure, or public domain general fixed assets, consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized with other general fixed assets. Depreciation on exhaustible general fixed assets is recorded in the Account Group using the straight-line method over the estimated useful life of the asset.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

The proprietary funds and pension trust fund are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activities are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Depreciation of all exhaustible fixed assets used by the proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated useful life of each asset using the straight-line method.

General fixed assets acquired after December 31, 1981, are recorded at historical cost. Assets acquired prior to that date are recorded at estimated historical cost. Assets in service related to the proprietary funds are recorded at cost at the time of purchase. Donated fixed assets are recorded at their estimated fair value on the date donated.

Fixed assets acquired from resources externally restricted for capital acquisition (such as capital grants) are recorded as non-operating grant revenue in the benefiting proprietary fund. Depreciation on these assets is charged as an expense against these operations.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Because they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-term Debt Account Group.

The two account groups are not “funds.” They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

#### **(c) Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

#### **Modified Accrual Basis of Accounting**

The modified accrual basis of accounting is followed in the governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to pay current liabilities.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

Real estate taxes levied 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 60 days of the subsequent year.

Revenues from federal, state, and other grants designated for payment of specific County expenditures are recognized when the related expenditures are incurred. Any excess of receipts or expenditures at year end is recorded as deferred revenue or accounts receivable, respectively.

Licenses, fines, penalties and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Interest on investments is recognized when earned.

Expenditures generally are recognized under the modified accrual basis of accounting when the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recognized when due, and (2) compensated absences, which are recognized when the obligations are expected to be liquidated with expendable, available financial resources. Disbursements for inventory type items are considered expenditures at the time of purchase.

### **Accrual Basis of Accounting**

The accrual basis of accounting is followed in the Pension Trust Fund and all proprietary funds, except for the Cumberland County Industrial Development Authority, a component unit, which uses the modified cash basis. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. The County applies only those applicable Financial Accounting Standards Board pronouncements issued before November 30, 1989, to its proprietary fund types, unless they conflict with GASB pronouncements.

Unbilled patient service charges in the County Nursing Home Enterprise Fund and transportation charges in the Transportation Internal Service Fund are accrued and reported in the financial statements.

Retirement Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### ***(d) Budgets and Budgetary Accounting***

Formal budgetary accounting is employed as a management control in the County's governmental funds. Annual operating budgets are adopted each year through the passage of an annual budget ordinance and, except as described below, accounting principles generally accepted in the United States (GAAP) are used to complete the budget. The legally adopted

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

budget does not include the Cumberland County Industrial Development Authority (which is a component unit), certain District Attorney Programs, nor Prison Canteen Funds (which are included in the general fund). Additionally, the County budgets for indirect costs and library taxes as revenue and expenditures, but they are not reported as such under GAAP. Accordingly, the applicable columns of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) exclude amounts relating to the unbudgeted amounts and include amounts related to indirect costs.

A reconciliation of revenues from a budget basis to a GAAP basis for budgeted and unbudgeted activity for the year ended December 31, 2002, follows:

	<u>General fund</u>
Total revenues (budget basis)	\$ 40,947,805
Unbudgeted funds revenues:	
Indirect costs	(807,873)
District Attorney programs	160,006
Library taxes	<u>(1,785,679)</u>
Total revenues (GAAP basis)	<u>\$ 38,514,259</u>

A reconciliation of expenditures from a budget basis to a GAAP basis for budgeted and unbudgeted activity for the year ended December 31, 2002, follows:

	<u>General fund</u>
Total expenditures (budget basis)	\$ 32,975,769
Unbudgeted funds expenditures:	
Indirect costs	(807,873)
District Attorney programs	133,318
Library tax reimbursement	<u>(1,785,679)</u>
Total expenditures (GAAP basis)	<u>\$ 30,515,535</u>

The County of Cumberland follows these procedures in establishing the budget data presented in the financial statements:

1. During the months of July and August each department reviews current and prior year financial information to develop budget projections for the upcoming fiscal year. These projections often are developed in consultation with the County Finance Office. The results are submitted by each department in a standard format to the County Finance Office as a preliminary budget proposal.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

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2. The County Finance Office reviews all submissions and consults with departments as needed to substantiate the basis for requests and to refine the budget projections. The County Finance Office makes necessary adjustments to department submissions and compiles the data for presentation to the Board of County Commissioners, which is discussed during a public hearing process.
3. The County Finance Office, the Chief Clerk, and the County Administrator develop a revenue projection and financing strategy in support of the proposed budget. A preliminary budget including revenue and expenditure projections are submitted to the County Commissioners for consideration.
4. The final budget is presented to the County Commissioners and after proper public notice, is placed on display for a period of 20 days in accordance with the County Code. The County Commissioners adopt the budget after the necessary inspection period by enacting a formal budget resolution. The resulting budget is published in written form.
5. The County Commissioners may at any time, by resolution, make supplemental appropriations for any lawful purpose from any funds on hand. These funds include amounts estimated to be received within the fiscal year and not otherwise appropriated as well as the proceeds of any borrowing authorized by law. The County Commissioners may authorize the transfer of all or part of any unencumbered balances. The County Commissioners must approve changes to overall appropriations at the fund level. Therefore, the legal level of budgetary responsibility is by fund.

During the year, \$666,149 in general fund supplemental appropriations were enacted. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) reflects these revisions. Actual expenditures and operating transfers out may not legally exceed “budget” appropriations at the individual fund level (see note 12 for funds that have exceeded their budgets).

Encumbered and unencumbered appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

**(e) *Statement of Cash Flows***

For purposes of the statement of cash flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**(f) *Investments***

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

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Investments are recorded 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.

#### ***(g) Fixed assets, net of depreciation***

Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives for each fixed asset category are as follows:

Land and improvements	15 to 20 years
Building and improvements	15 to 40 years
Movable furniture and equipment	5 to 20 years
Fixed equipment	4 to 25 years

#### ***(h) Accumulated Unpaid Vacation and Sick Pay***

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. The first type was accrued prior to August 1, 1997 and is carried forward from year to year. The second type 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.

All compensated absences liabilities related to the governmental funds are reported in the General Long-term Debt Account Group because they are not payable with expendable, available financial resources. In the Proprietary Funds, the liabilities are reported within each respective fund.

#### ***(i) 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.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

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#### ***(j) 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.

#### ***(k) Reserve for Restricted Contributions***

The Office of Aging Fund receives contributions from participants in their programs that must be used in the program in the following fiscal year. The balance of unexpended contributions on hand is reserved for future expenditures under the aging program.

#### ***(l) Reserve for 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 to the County. The program is designed to reduce the development of County farmland.

#### ***(m) Reserve for Offenders' Supervision***

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

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**(n) *Reserve for Criminal Investigation***

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

**(o) *Reserve for Landfill Closure***

The County established and manages a post-closure trust fund for operating the municipal waste landfill in the County. The trust fund may be used to prevent or abate adverse effects upon the environment after the landfill closure. The funds also may be used for purpose of the Environment Stewardship and Water Shed Protection Act.

**(p) *Total Columns on Combined Statements***

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**(q) *Pending Changes in Accounting Principles***

In June 1999, the GASB issued statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." This Statement provides significant new accounting and financial reporting requirements for governments. The County is required to adopt GASB Statement No. 34 in calendar year 2003, except for certain provisions relating to infrastructure, which it is required to adopt in calendar year 2007.

In March 2000, the GASB issued Interpretation No. 6 of the Governmental Accounting Standards Board, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen or potentially could raise, in interpretation and practice. The County is required to adopt Interpretation No. 6, along with the adoption of GASB Statement No. 34 for its 2003 financial statements.

In June 2001, the GASB issued Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus. GASB Statement No. 37 amends GASB Statement No. 34 for purposes of clarification and minor modification. The County is required to adopt GASB Statement No. 37, along with the adoption of GASB Statement No. 34 for its 2003 financial statements.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to General Purpose Financial Statements

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In June 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures." This Statement modifies, establishes, and rescinds certain financial statement disclosure requirements. The County is required to adopt GASB Statement No. 38 for its 2003 financial statements.

In May 2002, the GASB issued Statement No. 39, "Determining Whether Certain Organizations are Component Units," an amendment of GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. The County is required to adopt GASB Statement No. 39 for its 2003 financial statements.

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

In March 2002, the GASB issued 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." The County is required to adopt GASB Statement No. 40 for its 2003 financial statements.

### **(3) Deposits and Investments**

Pennsylvania statutes provide for investment of governmental and proprietary fund resources into certain authorized investment types, including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental and proprietary funds, fiduciary fund investments also may be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the County adheres to state statutes and prudent business practice. Deposits and investments of the governmental funds are maintained in demand deposits or savings accounts, certificates of deposit, and repurchase agreements.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(a) Deposits**

The following is a summary of the County's cash deposits, which are insured by the Federal Depository Insurance Company (Category 1), collateralized with securities held by the depository's trust department in the County's name (Category 2), and the balance, which was not insured nor collateralized in the County's name, but was collateralized in accordance with Pennsylvania State Act 72. That Act requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name (Category 3).

Primary government	Category 1	Category 2	Category 3	Bank balance	Carrying amount
Petty cash	\$ —	—	—	—	11,343
Checking and savings accounts	700,000	2,325,739	11,080,858	14,106,597	12,918,632
Certificates of deposit	100,000	—	10,633,896	10,733,896	10,733,896
	<u>\$ 800,000</u>	<u>2,325,739</u>	<u>21,714,754</u>	<u>24,840,493</u>	<u>23,663,871</u>
Less: deposits classified as investments				(2,159,000)	(2,159,000)
Less: restricted cash and cash equivalents				<u>(2,501,408)</u>	<u>(2,501,408)</u>
Total cash and cash equivalents				<u>\$ 20,180,085</u>	<u>19,003,463</u>
<b>Component units</b>					
Checking and savings accounts	\$ —	143,049	90,070	233,119	232,967
Certificates of deposit	<u>—</u>	<u>—</u>	<u>225,000</u>	<u>225,000</u>	<u>225,000</u>
Total cash and cash equivalents	<u>\$ —</u>	<u>143,049</u>	<u>315,070</u>	<u>458,119</u>	<u>457,967</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(b) Investments**

The investments of the County at December 31, 2002, have been categorized to indicate the level of risk assumed by the County. All of the County's investments are in Category 3 because they are uninsured and unregistered investments held by the counterparty or by its trust department or agency, but not in the County's name. Investments in guaranteed investment contracts and mutual funds are not categorized because securities are not used as evidence of the investment.

The fair value and category of the investments of the County at December 31, 2002, were as follows:

	<b>Total fair value</b>
<b>Primary government</b>	
U.S. Treasury and agency obligations	\$ 16,324,721
Common stocks	19,327,073
Corporate debt	<u>15,827,241</u>
	51,479,035
Add: guaranteed investment contracts - no custodial risk	6,674,977
Add: mutual fund - no custodial risk	10,970,691
Add: deposits classified as investments	3,159,000
Less: restricted investments	<u>(5,868,192)</u>
Total investments	<u><u>\$ 66,415,511</u></u>
<b>Component units</b>	
U.S. Treasury obligations	<u><u>\$ 70,184</u></u>

The Pension Trust Fund can purchase certain derivative or derivative-like financial instruments to increase the total rate of return for the portfolio over similar non-derivative instruments and to diversify the portfolio. All of these instruments are rated AAA by national credit rating agencies. The market risk relating to those instruments is minimal and similar to that of a non-derivative mortgage product.

The Pension Trust Fund is also invested in asset-backed securities issued by private-sector financial services corporations. The majority of the market risk on those financial instruments is related to interest rate changes. The fair value of those securities was \$3,490,857 at December 31, 2002.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### **Notes to General Purpose Financial Statements**

December 31, 2002

#### **(4) 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 2002, County real estate taxes were levied at the rate of 1.813 mills for general County purposes and .233 mills for debt service on every dollar of adjusted valuation for general and debt service purposes. An additional levy was approved by the electorate for the County library system at .103 mills. This tax is accounted for as an agency transaction and the revenues are not recognized by the County.

#### **(5) Due from Other Governments and Accounts Receivable**

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2002. Additionally, the County Nursing Home Fund has \$2,681,716 in patient accounts receivable, which is primarily 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 \$470,575 against the patient accounts receivable.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

**(6) Fixed Assets**

*(a) Changes in Fixed Assets*

A summary of changes in fixed assets for 2002 follows:

	<b>Land and improvements</b>	<b>Buildings and improvements</b>	<b>Movable furniture and equipment</b>	<b>Fixed equipment</b>	<b>Construction in progress</b>	<b>Total fixed assets</b>
<b>General Fixed Assets</b>						
Balance at January 1, 2002	\$ 1,787,197	28,557,181	8,281,876	3,724,571	65,235	42,416,060
Additions and transfers	—	—	1,550,051	13,774	228,041	1,791,866
Deletions and transfers	—	—	476,288	2,000	60,000	538,288
Balance at December 31, 2002	1,787,197	28,557,181	9,355,639	3,736,345	233,276	43,669,638
Less accumulated depreciation	—	15,924,273	6,018,216	3,223,627	—	25,166,116
Net book value at December 31, 2002	\$ 1,787,197	12,632,908	3,337,423	512,718	233,276	18,503,522
<b>Enterprise Funds Fixed Assets</b>						
Balance at January 1, 2002	\$ 227,807	12,480,219	5,227,333	3,959,126	8,714,990	30,609,475
Additions and transfers	311,284	4,811,192	4,034,432	5,442,428	6,939,068	21,538,404
Deletions and transfers	7,572	675,536	458,768	593,386	14,821,204	16,556,466
Balance at December 31, 2002	531,519	16,615,875	8,802,997	8,808,168	832,854	35,591,413
Less accumulated depreciation	136,246	6,470,028	3,442,781	1,070,358	—	11,119,413
Net book value at December 31, 2002	\$ 395,273	10,145,847	5,360,216	7,737,810	832,854	24,472,000
<b>Internal Service Funds Fixed Assets</b>						
Balance at January 1, 2002	\$ —	—	1,799,502	9,402	94,262	1,903,166
Additions and transfers	—	—	524,633	—	—	524,633
Deletions and transfers	—	—	231,278	—	94,262	325,540
Balance at December 31, 2002	—	—	2,092,857	9,402	—	2,102,259
Less accumulated depreciation	—	—	1,246,823	2,284	—	1,249,107
Net book value at December 31, 2002	\$ —	—	846,034	7,118	—	853,152

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### *(b) Construction in Progress*

For general fixed assets, construction in progress is in large part represented by \$228,041 expended for enterprise resource planning (ERP) software which will be implemented in 2004.

As for the enterprise funds fixed assets, construction in progress represents grant proceeds of \$745,456 expended for the future implementation of a computer-aided emergency dispatch system at Emergency Telephone. The remainder of construction in progress represents 800mhz radio project costs and renovations to the nursing home chapel and staff development center.

#### **(7) Long-term Debt**

The following is a summary of long-term debt transactions of the County for the year ended December 31, 2002:

	<b>General long-term debt</b>	<b>Enterprise funds</b>	<b>Total</b>
Long-term debt, January 1, 2002	\$ 10,577,360	25,129,358	35,706,718
Debt issued	4,740,799	4,524,114	9,264,913
Debt retired	(2,445,752)	(241,235)	(2,686,987)
Refunded	(2,324,557)	(4,535,443)	(6,860,000)
Amortization of discount on zero coupon bonds	-	12,371	12,371
Long-term debt, December 31, 2002	<b>\$ 10,547,850</b>	<b>24,889,165</b>	<b>35,437,015</b>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

Long-term debt payable at December 31, 2002 is comprised of the following individual issues:

	<b>Interest rate</b>	<b>Final maturity</b>	<b>Total</b>
General obligation bonds – 1998 issue	3.80% – 4.80%	2003	\$ 580,000
General obligation bonds – 1999 issue	3.30% – 4.35%	2012	4,645,000
General obligation bonds – 2000 issue	Variable rate	2020	10,930,000
General obligation bonds – 2001 issue	Variable rate	2021	9,055,000
General obligation note – 2001 issue	3.375%	2004	900,000
General obligation note – 2001 issue	0%	2003	62,886
General obligation bonds- 2002 issue	1.6% – 4.35%	2017	<u>9,425,000</u>
Long-term debt, December 31, 2002			35,597,886
Less unamortized discount			<u>(160,871)</u>
Long-term debt, net of discount, December 31, 2002			<u>\$ 35,437,015</u>

Of the outstanding balance of the 1998 bond issue, \$148,844 of the principal and \$254 of the unamortized discount have been accounted for in the County Nursing Home Fund and \$107,785 of the principal and \$205 of the unamortized discount have been accounted for in the 911 Fund.

Of the outstanding balance of the 1999 bond issue, \$124,202 of the principal and \$324 of the unamortized discount have been accounted for in the County Nursing Home Fund.

Of the outstanding balance of the 2000 bond issue, \$3,816,756 of the principal has been accounted for in the County Nursing Home Fund and \$7,113,244 of the principal has been accounted for in the 911 Fund.

Of the outstanding balance of the 2001 bond issue, \$7,390,691 of the principal has been accounted for in the County Nursing Home Fund and \$1,664,309 of the principal has been accounted for in the 911 Fund.

Of the outstanding balance of the 2002 bond issue, \$2,914,608 of the principal and \$95,153 of the unamortized charge – bond refunding has been accounted for in the County Nursing Home Fund and \$1,769,592 of the principal and \$64,935 of the unamortized charge – bond refunding has been accounted for in the 911 Fund.

## **COUNTY OF CUMBERLAND, PENNSYLVANIA**

### Notes to General Purpose Financial Statements

December 31, 2002

In 2002, the County issued general obligation bonds-2002 issue in the amount of \$9,425,000 to partially advance refund the general obligation bonds-1998 issue for \$7,085,000 and the remainder to fund the purchase and future implementation of an enterprise resource planning system. The net refunding bond proceeds of \$6,974,584 after payment of underwriting fees, insurance and other issuance costs were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. The County had an economic gain of \$240,050 as a result of the advance refunding of the 1998 bonds.

The 2000 and 2001 bond issues have 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 interest. The variable rate is capped at fifteen percent. The County has the option of converting the 2000 and 2001 bonds to a fixed rate if certain conditions are met.

A \$900,000 infrastructure bank loan from the Commonwealth was secured by the County to pay for the Exit 44 study. The note is the responsibility of the County and five municipalities sharing in the Exit 44 study project.

A general obligation note was secured by the County on behalf of Capital Area Behavioral Health Collaborative Inc. (CABHC) for a small capital borrowing in the amount of \$69,873. The note has an interest rate of 0% and will be repaid by CABHC in March 2003.

The County's legal debt margin was \$205,056,095 as of December 31, 2002.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

The annual debt service requirements for the next five years and in the aggregate thereafter on long-term debt outstanding as of December 31, 2002, including interest payments are as follows:

	<b>General long-term debt</b>	<b>Enterprise funds</b>	<b>Total</b>
2003	\$ 1,093,264	1,421,406	2,514,670
2004	2,066,844	1,514,445	3,581,289
2005	1,281,654	1,541,950	2,823,604
2006	1,301,943	1,523,279	2,825,222
2007	1,297,812	1,509,204	2,807,016
Thereafter	<u>5,562,248</u>	<u>32,862,892</u>	<u>38,425,140</u>
<b>Total</b>	<b>12,603,765</b>	<b>40,373,176</b>	<b>52,976,941</b>
Less interest	<u>(2,055,911)</u>	<u>(15,323,144)</u>	<u>(17,379,055)</u>
<b>Principal</b>	<b>\$ 10,547,854</b>	<b><u>25,050,032</u></b>	<b><u>35,597,886</u></b>

The following is a summary of changes in the vacation and sick pay liabilities, which are accounted for as accrued expenses and withholdings:

	<b>General long-term debt</b>	<b>Proprietary funds</b>
Balance, January 1, 2002	\$ 2,329,794	932,459
Net change	280,662	(52,194)
<b>Balance, December 31, 2002</b>	<b>\$ 2,610,456</b>	<b>880,265</b>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(8) Defeased Bonds Outstanding**

In prior years, the County defeased various general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's general purpose financial statements. As of December 31, 2002, defeased bonds outstanding are as follows:

<b>Bond issue</b>	<b>Year refunded</b>	<b>Par value outstanding</b>
General obligation bonds – 1998 issue	2002	\$ <u>6,860,000</u>

#### **(9) Capital Lease Obligation**

In 1999, the County has entered into a capital lease agreement for financing the acquisitions of a county-wide time clock system. In previous years, the County has acquired vehicles for the Sheriff's department, Maintenance department, Vector Control and Central Booking by the means of leasing. The capital lease activity for 2002 included the purchases of a van for the Office of Domestic Relations, and furnishings for the County's Early Learning Center. The leased equipment is included in the general fixed asset account group and the enterprise fund for \$414,171 and \$53,211, respectively.

The following is a summary of changes in the capital lease liabilities that are maintained in the General Long-Term Debt Account Group and enterprise funds:

	<b>General long-term debt</b>	<b>Enterprise funds</b>
Balance, January 1, 2002	\$ 220,692	\$ —
Additions	25,435	53,211
Deletions	(132,546)	(2,926)
Balance, December 31, 2002	\$ <u>113,581</u>	\$ <u>50,285</u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

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, 2002:

	<b>General long- term debt</b>	<b>Enterprise funds</b>
2003	\$ 82,984	\$ 12,947
2004	23,186	12,947
2005	5,837	12,947
2006	5,837	12,947
2007	<u>1,946</u>	<u>8,632</u>
	119,790	60,420
Less amount representing interest	<u>(6,209)</u>	<u>(10,135)</u>
Present value of net minimum lease payments	<u><u>\$ 113,581</u></u>	<u><u>\$ 50,285</u></u>

### **(10) 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 general purpose financial statements and does not issue a stand-alone report.

As of December 31, 2002, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	328
Terminated plan members entitled to but not yet receiving benefits	82
Active plan members	<u>1,078</u>
Total	<u><u>1,488</u></u>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

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. Early retirement is available upon 20 years of service or after 8 years if involuntary termination. Members become vested after 8 years of service. County employees who terminate after 8 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 are provided at the discretion of the Retirement Board.

#### ***(b) Funding Policy and Contributions***

The County's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate sufficient assets to pay benefits when due. Effective January 1, 1997, level percentage of payroll employer contribution rates are determined using the aggregate actuarial funding method. Separate determination of the unfunded actuarial liability is not part of the aggregate cost method and is not required to be reported.

In 2002, the County contributed \$53,411 to the Plan in accordance with actuarially determined contribution requirements, determined through an actuarial valuation performed at December 31, 2001, and state law, using the following assumptions:

	<u>December 31, 2002</u>
Investment rate of return	7.5%
Projected salary increases	3%-4.5%; graduated $\frac{1}{4}$ increments over 6 years
Includes inflation at	3%
Asset valuation method	five-year smoothed market

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.

#### ***(c) Historical Trend Information***

Historical trend information for the Plan is presented as required supplementary information on page 75 of this report.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

**(11) Interfund and Transfer Accounts**

Individual interfund receivable and payable balances at December 31, 2002, were as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
General	\$ 2,323,654	11,885
Special revenue:		
Domestic Relations Office	—	411,501
Office of Aging	—	64,304
Children Services	—	1,489,340
Human Services Development	53,026	—
Cumberland County HealthChoices	—	62,584
Food and Shelter	590,463	—
Mental Health/Mental Retardation Program	395,896	—
Drug and Alcohol Commission	370,764	—
Central Booking	26,426	—
Witness Assistance	—	35,991
ARD/DUI Program	334	—
Records Improvement	26,179	—
Solid Waste	—	22,317
Affordable Housing	15,602	—
Exit 44 Study	549,849	—
Hotel Tax	—	83,315
Total special revenue	2,028,539	2,169,352
Debt Service	—	3,351
Capital Projects	2,089	224,898
Enterprise:		
County Nursing Home	2,089	883,178
Early Learning Center	23,323	—
911 Fund	—	829,060
Hazardous Materials	25,879	—
Total enterprise	51,291	1,712,238
Internal service:		
Transportation Department	180,258	—

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

	<u>Due from other funds</u>	<u>Due to other funds</u>
(Continued)		
Trust Fund:		
Retirement	—	12,449
Agency funds:		
Prison Work Release	—	27,722
Clerk of Court	—	121,573
Prothonotary	—	53,457
Recorder of Deeds	—	191,911
Treasurer	—	722
Register of Wills	—	27,921
Sheriff	—	19,861
District Attorney	—	8,491
	<hr/>	<hr/>
Total trust and agency funds	<hr/>	<hr/>
	<hr/>	<hr/>
	—	464,107

Interfund transfers for the year ended December 31, 2002, are as follows:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental fund types	\$ 6,939,687	7,978,632
Transfer to component units	—	49,015
Proprietary fund types	<hr/> 1,695,830	<hr/> 656,885
	<hr/>	<hr/>
Total primary government	8,635,517	8,684,532
Transfer from primary government-component units	<hr/> 49,015	<hr/> —
Total reporting entity	<hr/> \$ 8,684,532	<hr/> 8,684,532
	<hr/>	<hr/>

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(12) Excess of Expenditures over Appropriations in Individual Funds**

The legal level of budgetary control, as defined by the County Code, is the fund level. The following funds had an excess of actual expenditures over budget for the year ended December 31, 2002:

<b>Fund/Department</b>	<b>Appropriation</b>	<b>Expenditures</b>	<b>Percent of excess over appropriation</b>
Special Revenue:			
Children Services (A)	7,947,381	8,728,330	9.83%
Food and Shelter (A)	2,863,524	3,200,219	11.76%
Health Choices (A)	3,650,193	7,690,358	110.68%
Drug and Alcohol Commission (A)	2,637,846	2,643,934	0.23%
Debt Service (B)	2,995,037	3,006,077	0.37%

- (A) The appropriations shown for these funds cover the fiscal year July 1, 2001 through June 30, 2002. All expenditure figures are reported based on 2002 calendar year (January – December) activities thus the reason for the over-appropriation.
- (B) The over appropriation in Debt Service was due to a prior period adjustment made in 2002 that was not budgeted for in 2002.

#### **(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, 2002.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

**(14) Contributed Capital**

During the year, contributed capital changed by the following amounts:

	<b>Enterprise funds</b>	<b>Internal service funds</b>
Contributed capital, January 1, 2002	\$ 2,545,085	414,970
Depreciation of equipment purchased with capital grants from the Commonwealth	<u>(19,685)</u>	<u>(172,234)</u>
Contributed capital, December 31, 2002	<u><u>\$ 2,525,400</u></u>	<u><u>242,736</u></u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to General Purpose Financial Statements

December 31, 2002

**(15) Segment Information – Enterprise Funds**

The County maintains four enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. Financial statement information as of and for the year ended December 31, 2002, is presented below:

	<b>County Nursing Home</b>	<b>911 Fund</b>	<b>Hazardous Materials</b>	<b>Early Learning Center</b>	<b>Total</b>
Operating revenues	\$ 16,982,325	2,242,046	24,504	41,869	19,290,744
Grant revenue	—	491,906	19,078	—	510,984
Depreciation expense	725,946	614,449	12,197	6,141	1,358,733
Operating loss	(396,869)	(985,801)	(104,744)	(87,968)	(1,575,382)
Net income	(592,826)	(87,841)	(435)	246,079	(435,023)
Operating transfers in	527,627	726,895	79,831	335,437	1,669,790
Operating transfers out	(630,845)	(26,040)	—	—	(656,885)
Property, plant, and equipment additions	9,180,069	5,112,919	13,187	293,161	14,599,336
Property, plant, and equipment deletions	1,317,150	410,987	7,125	—	1,735,262
Net working capital (deficit)	2,110,276	(946,301)	6,587	85	1,170,647
Total assets	20,872,705	12,409,899	71,741	310,343	33,664,688
Long-term debt	14,299,376	10,589,789	—	—	24,889,165
Total equity	\$ 4,385,466	308,014	46,221	246,079	4,985,780

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### **(16) Commitments and Contingencies**

##### **(a) Grants**

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.

##### **(b) Leases**

The County leases building space for certain County and District Justices' offices and equipment. All of these leases are classified as operating leases with expiration dates extending through 2012. Total expenses for such leases were \$369,668 for the year ended December 31, 2002.

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, 2002:

<u>Year ending December 31,</u>	<u>Lease payments</u>
2003	\$ 456,579
2004	354,558
2005	249,761
2006	184,189
2007	116,482
 Total	 \$ 1,361,569

#### **(17) 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 \$300,000 for each individual workers' compensation occurrence. The County purchases commercial insurance for claims in excess of

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

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, 2002, were:

	Provision for claims		Claim payments		Balance at year end
	Beginning of year liability	Current year	Prior years	Current year	
2002	\$ 869,411	355,257	420,661	81,425	566,255
2001	\$ 955,774	344,393	(131,244)	73,544	225,968

### (18) 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.

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 ongoing obligation for the bonds and does not include the debt in its financial statements.

As of December 31, 2002, there were fourteen series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$296 million.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to General Purpose Financial Statements

December 31, 2002

#### ***(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, 2002, the projects had \$28,066,726 in outstanding principal balances.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Required Supplementary Information

(Unaudited)

Employee's Retirement Plan 1997-2002

Retirement Plan Contributions:

<b>Year ended December 31</b>		<b>Annual required contribution</b>	<b>County contribution</b>	<b>Percentage contributed</b>
1997	\$	21,000	21,000	100%
1998		—	—	—
1999		—	—	—
2000		—	—	—
2001		—	—	—
2002		53,411	53,411	100%

The information presented in the above schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2002
Actuarial cost method	Aggregate (1)
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return *	7 1/2%
Projected salary increases *	3% - 4 1/2%; graduated 1/4 increments over six years
* Includes inflation rate of	3%

(1) Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress. Determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and a schedule of funding progress is not required when that method is used.