

Report of Independent Auditors

County Commissioners
County of Cumberland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Cumberland (the County), as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of the discretely presented component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion herein, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the County has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2004 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.

Management's discussion and analysis, the required supplementary schedule of employer contributions for the County of Cumberland, Employee's Retirement Plan and the required supplementary schedules of revenues, expenditures, and changes in fund balances – budget and actual – budgetary basis for the General Fund, Mental Health/Mental Retardation Fund, Children Services Fund and HealthChoices-Cumberland County on pages 13 through 27, and 84 through 91 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cumberland's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst & Young LLP

May 28, 2004

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of Cumberland County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 thru 5 of this report.

Financial Highlights

- The assets of Cumberland County exceeded its liabilities at the close of the most recent fiscal year by \$ 48,983,100 (*net assets*). Of this amount, \$13,499,663 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,397,958.
- As of the close of the current calendar year, Cumberland County's governmental funds reported combined ending fund balances of \$16,475,989, an increase of \$2,075,335 in comparison to the prior year. Approximately 94 percent of the total fund balance amount (\$15,511,006) is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$8,699,315. Of this balance approximately \$1,450,000 is designated for capital projects and future debt service payments.
- Cumberland County's total debt decreased by \$244,044. The major changes in debt were a \$715,000 long term agricultural conservation easement purchase (increase), scheduled debt service payments of \$1,134,687 (decrease), and \$175,643 is due to an increase in the employee accrued leave balances.
- Cumberland County hired a consultant to evaluate the County's compensation plan based on counties of similar size and other employers in the region. In 2003, the County implemented a new salary structure based on the consultant's findings for all employees except union employees of the County Nursing Home and Cumberland County Prison.

Overview of the Financial Statements

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

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

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

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

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, conservation, urban redevelopment and housing, economic development and assistance and interest expense. The business-type activities include the County Nursing Home, the Early Learning Center, Emergency Telephone, Transportation and the Hazardous Materials fund.

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

The government-wide financial statements can be found on pages 30 and 31 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

governmental fund statement of revenues, expenditures, and changes in fund balances are reconciled to *governmental activities* in Note 3 in the notes to the financial statements.

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

The basic governmental fund financial statements can be found on pages 32 thru 35 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* report the same functions presented as *business-type activities* in the government-wide financial statements only in more detail. The County uses enterprise funds to account for the County Nursing Home, the Early Learning Center, Emergency Telephone, Transportation, and the Hazardous Materials fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its workers' compensation fund. Because workers' compensation service benefit both governmental and business-type functions, they have been included within both *governmental activities* and *business-type activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 36 thru 39 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 40 and 41 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 thru 82 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules. The County adopts annual appropriated budgets for its funds. Budgetary comparison schedules have been provided for the major governmental funds to demonstrate compliance with this budget. Required supplementary information can be found on pages 84 thru 91 of this report.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

Government-wide Financial Analysis

Over time, net assets may serve as a useful indicator of government's financial position. In the case of Cumberland County, assets exceeded liabilities by \$48,983,100 at the close of the most recent calendar year.

Cumberland County's Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current assets	\$25,971,796	\$26,781,824	\$ 8,840,257	\$ 9,880,648	\$34,812,053	\$36,662,472
Capital assets	38,892,681	37,090,811	24,639,751	25,325,151	\$63,532,432	\$62,415,962
Other assets	137,586	130,997	394,184	420,572	\$ 531,770	\$ 551,569
Total assets	65,002,063	64,003,632	33,874,192	35,626,371	98,876,255	99,630,003
Liabilities:						
Long-term liabilities outstanding	13,316,374	13,236,573	27,136,824	26,228,492	40,453,198	39,465,065
Other liabilities	7,524,359	10,323,559	1,915,598	3,256,237	9,439,957	13,579,796
Total liabilities	20,840,733	23,560,132	29,052,422	29,484,729	49,893,155	53,044,861
Net Assets:						
Invested in capital assets, net of related debt	32,283,858	32,027,212	3,199,579	4,650,717	35,483,437	36,677,929
Restricted	-	-	-	-	-	-
Unrestricted	11,877,472	8,416,288	1,622,191	1,490,925	13,499,663	9,907,213
Total net assets	\$44,161,330	\$40,443,500	\$ 4,821,770	\$ 6,141,642	\$48,983,100	\$46,585,142

By far the largest portion of Cumberland County's net assets (72 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. Cumberland County uses these assets to provide services to citizens; consequently, these services are *not* available for future spending. Although Cumberland County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of *unrestricted net assets* (\$13,499,663) may be used to meet the government's ongoing obligations to citizens and creditors.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

Cumberland County's Change in Net Assets

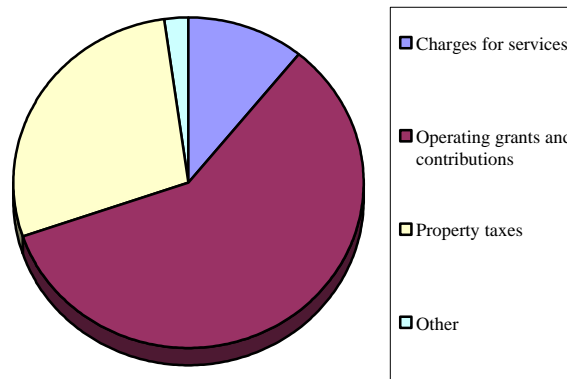
	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 10,367,441	\$ 10,745,578	\$ 21,917,955	\$ 19,423,495	\$ 32,285,396	\$ 30,169,073
Operating grants and contributions	56,186,576	51,086,844	1,451,523	1,916,820	57,638,099	53,003,664
Capital grants and contributions	282,571	692,427	510,821	882,544	793,392	1,574,971
General revenues:						
Property taxes	27,012,527	26,314,783	-	-	27,012,527	26,314,783
Other taxes	1,490,313	1,450,569	-	-	1,490,313	1,450,569
Grants and contribution restricted to specific programs	10,609	29,078	4,933	7,653	15,542	36,731
Unrestricted investment earnings	213,170	236,838	55,492	216,271	268,662	453,109
Total revenues	95,563,207	90,556,117	23,940,724	22,446,783	119,503,931	113,002,900
Expenses:						
General government	22,376,100	21,533,972	-	-	22,376,100	21,533,972
Public safety	13,287,128	11,972,094	-	-	13,287,128	11,972,094
Roads and bridge maintenance	861,335	838,729	-	-	861,335	838,729
Solid waste management	541,293	531,554	-	-	541,293	531,554
Human services	51,749,041	46,937,330	-	-	51,749,041	46,937,330
Culture and recreation	535,145	1,134,192	-	-	535,145	1,134,192
Conservation	541,665	340,797	-	-	541,665	340,797
Community redevelopment and housing	400,693	339,405	-	-	400,693	339,405
Economic development and assistance	913,960	806,439	-	-	913,960	806,439
Interest on long-term debt	354,504	395,355	-	-	354,504	395,355
Indirect expenses	(309,825)	(254,372)	309,825	254,372	-	-
Claremont nursing and rehabilitation center	-	-	18,386,131	17,569,470	18,386,131	17,569,470
Cumberland early learning center	-	-	294,183	131,227	294,183	131,227
Emergency telephone	-	-	4,275,821	3,616,184	4,275,821	3,616,184
Hazardous materials protection	-	-	112,576	129,263	112,576	129,263
Transportation services	-	-	1,530,755	1,262,223	1,530,755	1,262,223
Worker's Compensation	-	-	945,643	595,356	945,643	595,356
Total expenses	91,251,039	84,575,495	25,854,934	23,558,095	117,105,973	108,133,590
Increase (decrease) in net assets before transfers	4,312,168	5,980,622	(1,914,210)	(1,111,312)	2,397,958	4,869,310
Transfers	(594,338)	(1,038,945)	594,338	1,038,945	-	-
Increase in net assets	3,717,830	4,941,677	(1,319,872)	(72,367)	2,397,958	4,869,310
Net assets, beginning	40,443,500	35,501,823	6,141,642	6,214,009	46,585,142	41,715,832
Net assets, ending	44,161,330	40,443,500	4,821,770	6,141,642	48,983,100	46,585,142

COUNTY OF CUMBERLAND, PENNSYLVANIA

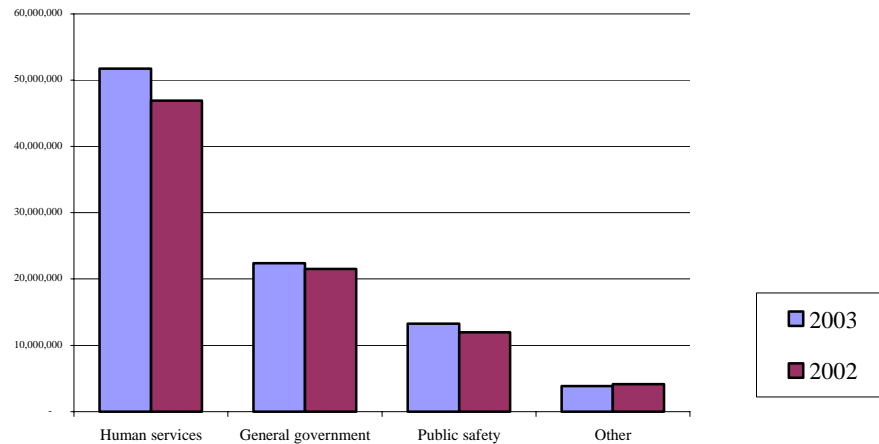
Management's Discussion and Analysis

Governmental activities. The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2003:

Revenues by Source - Governmental Activities



Expense Comparison by Activity - Governmental Activities



Governmental activities increased Cumberland County's net assets by \$3,717,830. Key elements of this increase were as follows:

- Operating grants and contributions increased due mainly to two major grants. HealthChoices increased \$3,941,768 due to an increase in capitation rates. The state approved the funding of the Interstate 81 Exit 44 Study in December 2003. The County received grant revenues of \$818,750 for all expenses since the project's inception in 2001.

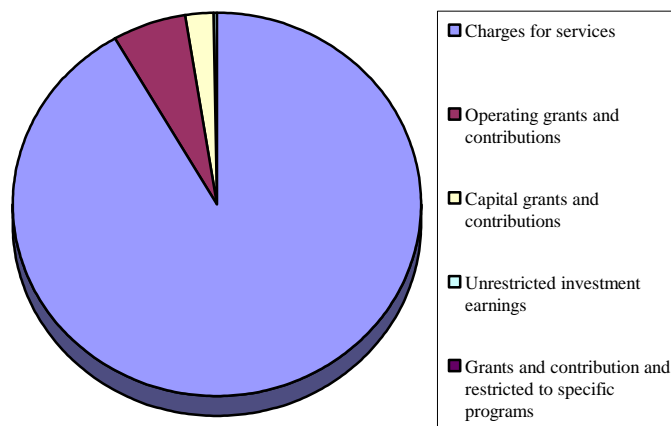
COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

- Capital grants decreased \$351,253 due to a decrease in the farmland preservation capital grant. This grant fluctuates based on the number and cost of agricultural easements purchased in a year.
- Property tax increased by \$697,744 (2.6 percent). This growth was related to new construction and property renovations.
- Public Safety expenses increased \$1,315,034. This increase was related to salary increases, increases in retirement, worker's compensation, and overtime and other costs of a major murder investigation.
- Human Services expenses increased by \$4,811,711.
 - Children and Youth increased \$830,041. The expenses were up due to a significant increase in child placements (average of 150).
 - Cumberland County HealthChoices increased \$3,941,479 due to an increase in capitation rates.
- Culture and Recreation decreased \$599,047 due to the Army Heritage project. This was a one-time grant funded project to assist in a portion of the construction of the Army Heritage Museum.
- Transfers decreased by \$444,607. See explanations in the following section (Business Type Activities).

Business-type activities. The following charts graphically depict the sources of revenue and functional expenses of business-type activities for the fiscal year ended December 31, 2003:

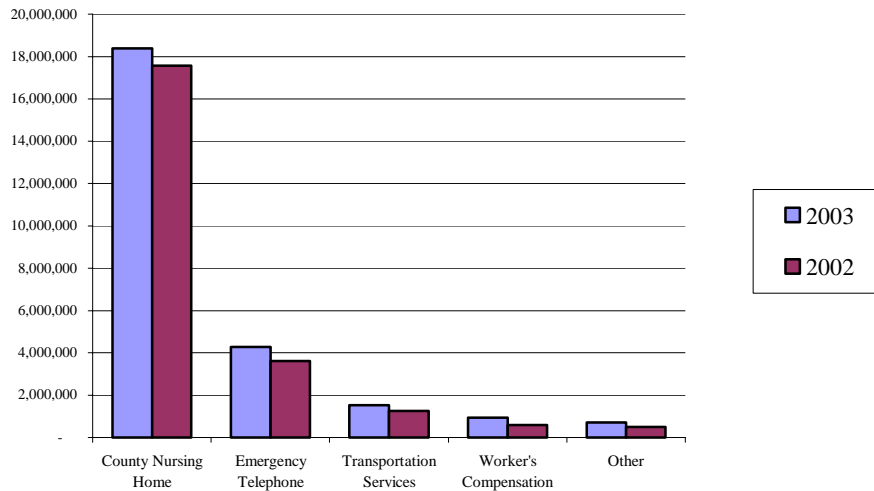
Revenues by Source - Business-type Activities



COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

Expense Comparison by Activity - Business-type Activities



Business-type activities decreased Cumberland County's net assets by \$1,319,872. Key elements of the decrease are as follows.

- Charges for services increased \$2,494,460.
 - The County Nursing Home's charges for services increased \$2,048,730. The majority was due to increased bed days and a \$10 per day increase for private pay beds.
 - The Early Learning Center's charges for services increased \$144,602. The center opened in late 2002, therefore 2003 was a full year of tuition, and the student body has increased over time.
 - Worker's compensation charges increased \$350,299 due to the increase in the required balance of the estimated claims payable.
 - Emergency Telephone's charges for services decreased by \$51,622. The surcharge revenue has been declining and is directly related to the use of cell phones instead of traditional phone lines.
- Operating grants and revenues have decreased by \$465,297. Inter governmental transfer (IGT) funded the renovation of a wing at the County Nursing Home to be used for the adult and child daycare centers. The project was completed in 2002.
- Capital grants have declined by \$371,723.
 - Transportation's capital grants decreased by \$101,715 due to the timing of the purchase of buses.
 - Emergency Telephone's grants decreased by \$270,008 because the majority of the Computer aided dispatch (CAD) project was completed in 2002.
- Investment earnings decreased by \$160,779. This decrease was mainly due to the decreased interest rates. The County Nursing Home also used their bond proceeds in 2002 which decreased the proceeds that were available to earn interest.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

- Expenses at the County Nursing Home increased by \$816,661. The increase in costs was mainly due to increased employee salaries, retirement, health insurance, worker's comp, and depreciation expense for renovations being placed in service at the end of 2002.
- The Early Learning Center expenses increased by \$162,956 because the center was opened late in 2002. There was a full year of expenses in 2003.
- Emergency Telephone expenses increased by \$659,637. This was primarily due to an increase of \$173,020 in depreciation expense for the portion of the 800 MHz project that has been put in service, an increase of approximately \$133,000 in salary and benefits costs and an increase of approximately \$101,000 in telephone costs. In addition, the savings from refinancing the 1998 General Obligation Bond (GOB) and the decline of interest rates on the variable rate bonds was offset by arbitrage interest payable due to delayed use of bond proceeds because of the delay in the 800 MHz project and resulted in a net increase of approximately \$329,000.
- Transportation expenses increased by \$268,532. Employee salary and benefit costs increased approximately \$78,000 due to salary increases, retirement, health insurance, and worker's compensation. Transportation upgraded its transit system software at a cost of approximately \$89,000. Body work and preventive maintenance performed on the buses increased transportation costs by approximately \$70,000. The remainder of the increase was due to depreciation expense and miscellaneous purchases.
- Worker's Compensation expenses increased by \$350,287 due to the increase in the required balance of the estimated claims payable.
- Transfers decreased by \$444,607.
 - Transfers to the County Nursing Home decreased by (\$527,627) due to the need for the County to subsidize the Nursing Home in 2002. IGT revenue was under dispute in 2002. The issue is resolved, and the funding is expected in 2004.
 - Transfers from the County Nursing Home decreased \$358,789. The assets purchased with IGT funding in 2002 for the adult day care center were transferred to the General Fund.
 - Transfer to Emergency Telephone increased \$238,000. The explanation is described above.
 - Transfers from Emergency Telephone increased (\$375,294) due to the purchase of radios on behalf of other County departments.
 - Transfers from Transportation increased by (\$131,000) due to repayment to the General Fund for subsidies provided in previous years.

Financial Analysis of the County's Funds

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

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

As of the end of the year, Cumberland County's governmental funds reported combined ending fund balances of \$16,475,989, and an increase of \$2,075,335 in comparison to the prior year. Approximately 94 percent of the total fund balance amount (\$15,511,006) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

indicate that it is not available for new spending because it has already been committed to farmland preservation (\$379,791), offender supervision (\$453,097), prepaid items (\$67,721) and criminal investigation (\$63,737).

The General Fund is the chief operating fund of Cumberland County. At the end of the year, unreserved fund balance of the General Fund was \$8,699,315 while total fund balance was \$9,663,661. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund expenditures. Unreserved fund balance represents 27 percent of total General Fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of Cumberland County's General Fund increased by \$2,100,080 during the current year. Key factors in this growth were as follows:

- County charges increased \$575,685. This increase was in the Recorder of Deeds office and was directly attributable to the large amount of mortgage refinancing due to the low interest rates.
- Real estate taxes increased \$832,262 due to normal growth from new construction and property renovations.
- Interest payments on the variable rate bonds were lower than budgeted and in return the General Fund was able to lower the subsidy to Emergency Telephone by \$225,000.
- The County signed a long-term purchase agreement for the purchase of an agricultural easement in 2003. The County was also given a grant for approximately \$250,000 to purchase a treasury strip for the final payment under the agreement in the year 2022.

Proprietary funds. Cumberland County's proprietary funds provide the same type of information found in the government-wide financials statements, but in more detail.

Worker's compensation is presented as an internal service fund in this section. Other factors concerning these funds can be found in Cumberland County's business-type activities on pages 36 thru 39.

General Fund Budgetary Highlights

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

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

The Commissioners approve all budget revisions that change the bottom line of a fund. Commissioners formally approve these budget revisions during bi-weekly Commissioners' hearings. The County Finance Office approves all reallocations of budget within a fund.

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

The funds and classifications in the CAFR are presented differently from the funds and classifications in the budget document. The explanations below are based on the CAFR presentation. For example, Stop Grant is a separate fund in the budget document, however, Stop Grant in the CAFR is part of the General Fund.

The General Fund final budgeted revenues increased \$256,888 from the original budget. The majority (\$175,413) was related to grants. The remaining revenue budget adjustments were miscellaneous small increases.

The actual revenues received were \$920,234 over final budget most of which is attributable to charges for services (\$964,583). The Recorder of Deeds received more revenues than anticipated because more people were refinancing their homes due to the low interest rates. The prison received more income due to housing more inmates for other municipalities and work release room and board.

The General Fund original budgeted expenses (including other financing sources/uses) increased \$1,179,949 to the final budget. The following is a list of the adjustments:

Farmland Preservation	\$ 35,580
New Grants	219,770
Donation	11,000
Capital Equipment	275,000
Custodial Services	64,256
Arbitrage Expense	10,250
New Debt Service	177,152
Transfer to Capital Projects	500,000
Miscellaneous	17,941
Transfer from Transportation	(131,000)

Actual General Fund expenses were under the final budget by \$289,070. Other financing sources (uses) were under final budget by \$1,905,841. Items that were unbudgeted were transfers from Emergency Telephone for radios (\$375,294) and proceeds from the issuance of long term debt for an agricultural easement (\$715,000). A transfer to Capital Projects was budgeted, however, a change of accounting for the fund occurred and the balance was designated in the General Fund's fund balance (\$500,000). General Fund transfers to other funds that were under budget were Emergency Telephone (\$214,756), Hazardous Material (\$119,489) and Mental Health and Mental Retardation (\$165,482). The cause of the decreased subsidies from the General Fund were low interest rates on variable rate bonds for Emergency Telephone, a hazardous material vehicle was not purchased before year end, and an increase in Hazardous Materials and Mental Health and Mental Retardation revenues.

Capital Asset and Debt Administration

Capital Assets. Cumberland County's investment in capital assets for its governmental and business type activities as of December 31, 2003, amounted to \$63,532,432 (net of accumulated depreciation). This

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

investment in capital assets includes land, buildings and systems, improvements other than buildings, machinery and equipment, bridges, construction in progress and agricultural easements. The total increase in Cumberland County's investment in capital assets for the current year was 1.8% percent (a 4.9% increase for governmental activities and a 2.7% decrease for business-type activities).

Cumberland County's Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,673,028	\$ 1,673,028	\$ -	\$ -	\$ 1,673,028	\$ 1,673,028
Buildings and systems	12,947,542	13,466,320	17,535,249	17,890,774	30,482,791	31,357,094
Improvements other than buildings	6,978	9,706	386,513	395,273	393,491	404,979
Machinery and equipment	3,091,124	2,937,065	6,717,989	6,206,251	9,809,113	9,143,316
Bridges	1,653,049	1,781,699	-	-	1,653,049	1,781,699
Construction in progress	1,615,868	313,023	-	832,854	1,615,868	1,145,877
Agricultural easements	17,905,092	16,909,970	-	-	17,905,092	16,909,970
Total	\$38,892,681	\$37,090,811	\$24,639,751	\$25,325,152	\$63,532,432	\$62,415,963

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

- The County purchased three agricultural easements for a total of \$995,122.
- The development of the County's Enterprise Resource Planning (ERP) software for a full calendar year required \$1.18 million in resources.
- Computer hardware of \$592,153 was purchased to supplement the County's technological needs.
- The 800 MHz radio project provided \$375,294 in portable and mobile radio to County departments.
- Computer aided dispatch software was capitalized for \$865,738 in the beginning of 2003.

Additional information on Cumberland County's capital assets can be found in Note 9 of this report.

Debt Administration. At the end of the current fiscal year, Cumberland County had total outstanding bond debt of \$33,635,000. The County's general obligation notes total \$1,615,000. This debt is backed by the full faith and credit of the government. Cumberland County does not have any special assessment debt or revenue bonds.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Management's Discussion and Analysis

The County's outstanding general obligation bonds and notes at December 31, 2003 and 2002 were:

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 8,872,954	\$ 9,584,968	\$24,762,046	\$25,050,032	\$33,635,000	\$34,635,000
General Obligation Notes	1,615,000	962,886	-	-	1,615,000	962,886
Total	10,487,954	10,547,854	24,762,046	25,050,032	35,250,000	35,597,886

Cumberland County's bond debt decreased to \$1,000,000 in principal payments made during the current fiscal year. There was no other bond debt activity during 2003.

Cumberland County's general obligation notes increased by \$715,000 due to an agricultural conservation easement purchase. Cumberland County also purchased a Treasury Strip, financed by a state grant to make the principal payments on the note in 2022. Cumberland County's General Fund will make the annual interest payments on the note. The remaining change is a decrease of \$62,886 on the final principal payment on a 2001 note.

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

The current debt limitation for Cumberland County is \$ 254,932,953, which is significantly in excess of Cumberland County's outstanding general obligation debt.

In 2004, Cumberland County issued a \$7,930,000 bond. Of this amount, \$3,930,000 is for refinancing the 1999 GOB to take advantage of lower interest rates. The remainder is for new projects including, farmland and open space preservation.

Additional information on Cumberland County's long-term debt can be found in Note 12 of this report.

Economic Factors and Next Year's Budgets and Rates

Residents of Cumberland County benefited from the lowest unemployment levels in the Commonwealth throughout 2003. The trend will continue through 2004 based on current projections. As of April 2004 the Cumberland County unemployment rate was 2.7% while the statewide rate was 4.9%. Although Cumberland has the lowest rate, neighboring counties also have unemployment rates significantly below statewide average.

These relatively low unemployment rates remained steady despite a sluggish economy and an extended period of flat economic growth. Consistently low unemployment numbers reflect relatively stable economic conditions within Cumberland County and within the South Central region of Pennsylvania. The current estimated per capita income for the region is \$26,054 which compares favorably to a national estimate of \$24,078. County residents also benefit from an array of employment opportunities in the private sector as well as local, state and federal governments.

COUNTY OF CUMBERLAND, PENNSYLVANIA

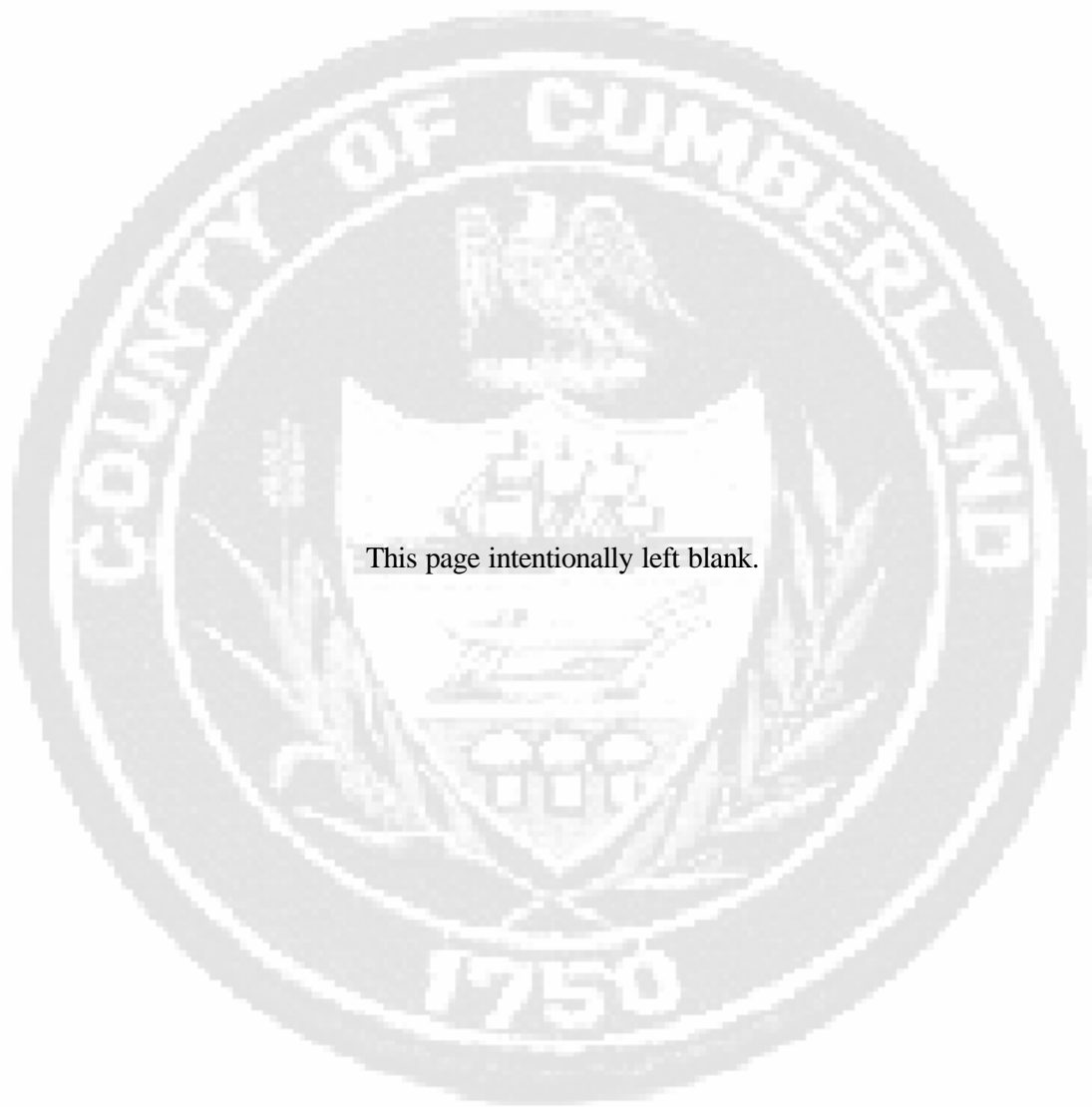
Management's Discussion and Analysis

Cumberland County has broadened its efforts to improve and expand economic development efforts geared to attracting and retaining desirable employment opportunities for its residents. The goal is to maintain a business climate that meets the needs of businesses and workers. The County expects the local economy to maintain a slow but steady upward trend (barring extraordinary regional or national events).

The annual budget process is always a difficult process of balancing competing interests and good ideas. For 2004 the task is made all the more challenging due to the State budget crisis and lagging economy.

Requests for Information

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



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Basic Financial Statements

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Net Assets

December 31, 2003

	Primary Government			Component Unit	
	Governmental Activities	Business-Type Activities	Total	Conservation District	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 12,720,931	\$ 2,245,414	\$ 14,966,345	\$ 288,864	\$ 95,059
Investments	1,001,820	-	1,001,820	-	72,742
Receivables (net of allowance for uncollectibles):					
Taxes	1,167,565	-	1,167,565	-	-
Due from other governments	6,557,231	3,007,306	9,564,537	82,693	-
Accounts receivable	2,080,153	228,380	2,308,533	-	-
Note receivable	-	-	-	-	319,156
Due from component units	78,909	-	78,909	-	-
Due from agency funds	405,955	-	405,955	-	-
Internal balances	761,780	-	761,780	-	-
Prepaid	69,476	38,120	107,596	1,378	-
Restricted assets:					
Cash and cash equivalents	743,349	102,729	846,078	-	-
Investments	384,627	3,218,308	3,602,935	-	-
Capital assets (net of accumulated depreciation):					
Land	1,673,028	-	1,673,028	-	-
Buildings and systems	12,947,542	17,535,249	30,482,791	-	-
Improvements other than buildings	6,978	386,513	393,491	-	-
Machinery and equipment	3,091,124	6,717,989	9,809,113	61,954	-
Bridges	1,653,049	-	1,653,049	-	-
Construction in progress	1,615,868	-	1,615,868	-	-
Agricultural easements	17,905,092	-	17,905,092	-	-
Other assets	137,586	394,184	531,770	-	-
Total Assets	<u>65,002,063</u>	<u>33,874,192</u>	<u>98,876,255</u>	<u>434,889</u>	<u>486,957</u>
LIABILITIES					
Accounts payable and other current liabilities	4,737,379	367,169	5,104,548	23,783	-
Accrued payroll	707,447	411,362	1,118,809	3,617	-
Internal balances	-	761,780	761,780	-	-
Due to primary government	-	-	-	78,909	-
Due to other governments	566,591	-	566,591	-	-
Accrued interest payable	49,124	22,922	72,046	-	-
Unearned revenues	994,735	85,677	1,080,412	42,790	-
Capital lease payable	22,015	10,028	32,043	-	-
Worker's compensation claims payable	-	579,708	579,708	-	-
General obligation notes payable	900,000	-	900,000	-	-
General obligation bonds payable	859,633	380,367	1,240,000	-	-
Funds held as fiduciary	468,470	266,688	735,158	-	-
Other liabilities	613	-	613	-	-
Noncurrent liabilities:					
Due in more than one year:					
General obligation bonds	8,013,321	24,237,085	32,250,406	-	-
General obligation notes	715,000	-	715,000	-	-
Capital lease payable	12,748	30,998	43,746	-	-
Bond arbitrage payable	-	375,301	375,301	-	-
Sick and vacation accrual	2,793,657	832,680	3,626,337	40,023	-
Worker's compensation claims payable	-	690,657	690,657	-	-
Total Liabilities	<u>20,840,733</u>	<u>29,052,422</u>	<u>49,893,155</u>	<u>189,122</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	32,283,858	3,199,579	35,483,437	61,954	-
Unrestricted	11,877,472	1,622,191	13,499,663	183,813	486,957
Total Net Assets	<u>\$ 44,161,330</u>	<u>\$ 4,821,770</u>	<u>\$ 48,983,100</u>	<u>\$ 245,767</u>	<u>\$ 486,957</u>

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Activities

For the year ended December 31, 2003

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Indirect Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
						Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
Primary government:										
Governmental activities:										
General government	\$ 22,376,100	\$ (872,850)	\$ 6,703,034	\$ 2,783,458	\$ 21,979	\$ (11,994,779)	\$ -	\$ (11,994,779)	\$ -	\$ -
Public safety	13,287,128	-	1,846,768	2,126,353	11,000	(9,303,007)	-	(9,303,007)	-	-
Roads and bridge maintenance	861,335	163	-	1,256,450	-	394,952	-	394,952	-	-
Solid waste management	541,293	23,118	568,435	437,668	-	441,692	-	441,692	-	-
Human services:										
Mental Health/Mental Retardation	21,543,888	167,667	49,009	21,230,866	-	(431,680)	-	(431,680)	-	-
HealthChoices	11,631,837	-	-	11,631,837	-	-	-	-	-	-
Children and Youth	9,369,124	165,626	437,110	7,751,800	-	(1,345,840)	-	(1,345,840)	-	-
Food and Shelter	2,978,327	-	75,445	3,030,019	-	127,137	-	127,137	-	-
Office of Aging	2,928,172	128,151	129,699	2,894,113	-	(32,511)	-	(32,511)	-	-
Other	3,297,693	78,300	95,735	2,894,200	-	(386,058)	-	(386,058)	-	-
Culture and recreation	535,145	-	-	(6,199)	-	(541,344)	-	(541,344)	-	-
Conservation	541,665	-	61,481	78,631	249,592	(151,961)	-	(151,961)	-	-
Community redevelopment and housing	400,693	-	400,325	1,551	-	1,183	-	1,183	-	-
Economic development and assistance	913,960	-	400	75,829	-	(837,731)	-	(837,731)	-	-
Interest on long-term debt	354,504	-	-	-	-	(354,504)	-	(354,504)	-	-
Total governmental activities	91,560,864	(309,825)	10,367,441	56,186,576	282,571	(24,414,451)	-	(24,414,451)	-	-
Business-type activities:										
County Nursing Home	18,386,131	214,697	18,528,173	62,554	-	-	(10,101)	(10,101)	-	-
Early Learning Center	294,183	-	186,471	13,021	-	-	(94,691)	(94,691)	-	-
Emergency Telephone	4,275,821	-	2,190,387	-	221,898	-	(1,863,536)	(1,863,536)	-	-
Hazardous Materials Protection	112,576	-	24,425	42,739	-	-	(45,412)	(45,412)	-	-
Transportation Services	1,530,755	95,128	42,856	1,333,209	288,923	-	39,105	39,105	-	-
Worker's Compensation	945,643	-	945,643	-	-	-	-	-	-	-
Total business-type activities	25,545,109	309,825	21,917,955	1,451,523	510,821	-	(1,974,635)	(1,974,635)	-	-
Total primary government	\$ 117,105,973	\$ -	\$ 32,285,396	\$ 57,638,099	\$ 793,392	(24,414,451)	(1,974,635)	(26,389,086)	-	-
Component units:										
Conservation District	\$ 800,377		\$ 85,906	\$ 587,495		-	-	-	(126,976)	-
Industrial Development Authority	30,357		9,708	600		-	-	-	-	(20,049)
Total component unit	\$ 830,734		\$ 95,614	\$ 588,095		-	-	-	(126,976)	(20,049)
General revenues:										
Real estate taxes						27,012,527	-	27,012,527	-	-
Per capita taxes						657,253	-	657,253	-	-
Hotel taxes						833,060	-	833,060	-	-
Grants and contributions not restricted to specific programs						10,609	4,933	15,542	3,042	-
Unrestricted investment earnings						213,170	55,492	268,662	-	3,070
Component unit subsidies						-	-	-	48,500	-
Transfers						(594,338)	594,338	-	-	-
Total general revenues and transfers						28,132,281	654,763	28,787,044	51,542	3,070
Change in net assets						3,717,830	(1,319,872)	2,397,958	(75,434)	(16,979)
Net assets-beginning						40,443,500	6,141,642	46,585,142	321,201	503,936
Net assets-ending						\$ 44,161,330	\$ 4,821,770	\$ 48,983,100	\$ 245,767	\$ 486,957

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Balance Sheet
Governmental Funds
December 31, 2003

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices- Cumberland County	Other non-major funds	Total
Assets						
Cash and cash equivalents	\$ 5,817,361	2,143,116	300	49,239	4,710,915	12,720,931
Restricted assets:						
Cash and cash equivalents	—	—	—	—	743,349	743,349
Investments	130,627	—	—	—	254,000	384,627
Investments	249,592	—	—	—	752,228	1,001,820
Due from other funds	5,180,287	—	—	—	814,487	5,994,774
Due from component unit	78,909	—	—	—	—	78,909
Accrued interest receivable	10,301	—	—	—	—	10,301
Due from other governments	416,129	286	3,616,429	—	2,524,387	6,557,231
Taxes receivable	1,130,282	—	—	—	37,283	1,167,565
Accounts receivable	237,413	210,271	—	—	344,916	792,600
Prepaid items	67,721	—	—	—	1,755	69,476
Other assets	19,905	—	—	—	—	19,905
Total assets	\$ 13,338,527	2,353,673	3,616,729	49,239	10,183,320	29,541,488
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 1,107,221	1,914,860	684,516	24,498	1,006,284	4,737,379
Accrued liabilities and withholdings	606,483	19,007	22,912	—	59,045	707,447
Due to other funds	—	135,138	2,862,713	23,016	1,781,065	4,801,932
Due to other governments	566,591	—	—	—	—	566,591
Deferred taxes	788,327	—	—	—	—	788,327
Deferred revenue	141,595	284,668	46,588	1,725	520,159	994,735
Other liabilities	618	—	—	—	—	618
Funds held as fiduciary	464,031	—	—	—	4,439	468,470
Total liabilities	3,674,866	2,353,673	3,616,729	49,239	3,370,992	13,065,499
Fund balances:						
Reserved for:						
Prepaid items	67,721	—	—	—	—	67,721
Farmland preservation	379,791	—	—	—	—	379,791
Offenders' supervision	453,097	—	—	—	—	453,097
Criminal investigation	63,737	—	—	—	—	63,737
Unreserved:						
Designated:						
Future capital projects	1,225,000	—	—	—	—	1,225,000
Future debt service arbitrage payments	225,000	—	—	—	—	225,000
Undesignated, reported in:						
General fund	7,249,315	—	—	—	—	7,249,315
Special revenue funds	—	—	—	—	6,330,164	6,330,164
Capital project funds	—	—	—	—	481,527	481,527
Debt service fund	—	—	—	—	637	637
Total fund balances	9,663,661	—	—	—	6,812,328	16,475,989
Total liabilities and fund balances	\$ 13,338,527	2,353,673	3,616,729	49,239	10,183,320	29,541,488

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

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

December 31, 2003

Total fund balances-governmental funds	\$	16,475,989
Amount reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore not reported in the funds		38,892,681
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		2,075,881
Other non-current assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. This balance constitutes the balance of deferred bond issue costs.		107,382
Internal service fund used by management to charge the costs of the self-insured workers' compensation to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(25,105)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(13,316,374)
Interest accrued on long-term liabilities is not due and payable in the current period and therefore are not reported in the funds.		(49,124)
Net assets of governmental activities	\$	<u>44,161,330</u>

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

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

For the year ended December 31, 2003

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices- Cumberland County	Other non-major funds	Total
Revenues:						
Taxes	\$ 27,779,449	—	—	—	833,460	28,612,909
Licenses and permits	91,648	—	—	—	—	91,648
Grants	3,284,706	20,966,439	7,749,630	11,629,837	12,208,022	55,838,634
County charges	5,984,382	—	439,231	—	1,704,302	8,127,915
Court costs, fines and forfeits	1,036,201	—	—	—	342,097	1,378,298
Interest	364,393	66,834	49	2,000	110,878	544,154
Contributions and other	685,122	246,603	—	—	556,069	1,487,794
Total revenues	39,225,901	21,279,876	8,188,910	11,631,837	15,754,828	96,081,352
Expenditures:						
Current:						
General government – administrative	7,629,310	—	—	—	62,056	7,691,366
General government – judicial	11,458,614	—	—	—	3,414,097	14,872,711
Public safety	9,852,449	—	—	—	—	9,852,449
Public works and enterprises	—	—	—	—	872,618	872,618
Human services	862,989	21,727,526	9,558,371	11,631,837	9,499,201	53,279,924
Culture and recreation	809,800	—	—	—	833,057	1,642,857
Conservation and development	2,200,691	—	—	—	823,725	3,024,416
Other	11,148	—	—	—	—	11,148
Debt service:						
Principal retirement	—	—	—	—	853,718	853,718
Interest and fiscal charges	—	—	—	—	349,205	349,205
Capital outlay	—	—	—	—	1,627,768	1,627,768
Total expenditures	32,825,001	21,727,526	9,558,371	11,631,837	18,335,445	94,078,180
Excess (deficiency) of revenues over expenditures	6,400,900	(447,650)	(1,369,461)	—	(2,580,617)	2,003,172
Other financing sources (uses):						
Transfers in	602,672	457,660	1,481,357	—	2,990,557	5,532,246
Transfers out	(5,569,992)	(62,885)	(111,896)	—	(381,810)	(6,126,583)
Component unit subsidies	(48,500)	—	—	—	—	(48,500)
Long-term debt issued	715,000	—	—	—	—	715,000
Total other financing sources (uses)	(4,300,820)	394,775	1,369,461	—	2,608,747	72,163
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,100,080	(52,875)	—	—	28,130	2,075,335
Fund balances, beginning of year, as restated	7,563,581	52,875	—	—	6,784,198	14,400,654
Fund balances, end of year	\$ 9,663,661	—	—	—	6,812,328	16,475,989

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

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

For the Year Ended December 31, 2003

Net change in fund balances--total governmental funds	\$	2,075,335
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		1,834,101
The net effect involving the disposal of capital assets		(32,231)
Revenues that provide current financial resources in the governmental funds but are unearned in the statement of activities.		(86,574)
The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		138,718
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		(7,670)
Compensated absence expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.		(218,519)
Some expenses reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.		(4,673)
Internal service funds are used by management to charge the cost of worker's compensation to individual funds		19,343
Change in net assets of governmental activities	\$	<u><u>3,717,830</u></u>

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Net Assets

Proprietary Funds

December 31, 2003

	Business-type Activities				
	Enterprise Funds				Internal
	County Nursing Home	Emergency Telephone	Other non- major funds	Totals	Service Fund Worker's Compensation
Assets					
Current assets:					
Cash and cash equivalents	\$ 809,010	12,176	200	821,386	1,424,028
Due from other funds	—	—	147,029	147,029	—
Accounts receivable:					
Patient accounts receivable (net of allowance for doubtful accounts of \$627,528)	2,935,287	—	—	2,935,287	—
Customer accounts receivable	—	238,749	61,050	299,799	600
Prepaid items	21,870	16,250	—	38,120	—
Total current assets	<u>3,766,167</u>	<u>267,175</u>	<u>208,279</u>	<u>4,241,621</u>	<u>1,424,628</u>
Noncurrent assets:					
Restricted cash - patient funds	102,729	—	—	102,729	—
Restricted investments - bond proceeds	28,967	3,189,341	—	3,218,308	—
Capital assets, net of depreciation	16,182,869	7,224,465	1,232,417	24,639,751	—
Other non-current assets	229,178	165,006	—	394,184	—
Total noncurrent assets	<u>16,543,743</u>	<u>10,578,812</u>	<u>1,232,417</u>	<u>28,354,972</u>	<u>—</u>
Total assets	<u>20,309,910</u>	<u>10,845,987</u>	<u>1,440,696</u>	<u>32,596,593</u>	<u>1,424,628</u>
Liabilities					
Current liabilities:					
Accounts payable	160,956	130,492	63,761	355,209	11,961
Accrued liabilities and withholdings:					
Accrued payroll	378,675	22,507	10,180	411,362	—
Accrued interest	14,557	8,365	—	22,922	—
Due to other funds	371,772	562,142	—	933,914	—
Deferred revenue	—	49,000	36,677	85,677	—
Capital lease payable	—	—	10,028	10,028	—
Worker's compensation claims payable	—	—	—	—	579,708
Funds held as fiduciary	266,688	—	—	266,688	—
Current maturities of long-term debt	223,180	157,187	—	380,367	—
Total current liabilities	<u>1,415,828</u>	<u>929,693</u>	<u>120,646</u>	<u>2,466,167</u>	<u>591,669</u>
Noncurrent liabilities:					
Accrued expenses and withholdings:					
Accrued vacation and sick pay	588,967	197,077	46,635	832,679	—
Arbitrage payable	—	375,300	—	375,300	—
Capital lease payable	—	—	30,999	30,999	—
Long-term debt	13,914,597	10,322,488	—	24,237,085	690,657
Total noncurrent liabilities	<u>14,503,564</u>	<u>10,894,865</u>	<u>77,634</u>	<u>25,476,063</u>	<u>690,657</u>
Total liabilities	<u>15,919,392</u>	<u>11,824,558</u>	<u>198,280</u>	<u>27,942,230</u>	<u>1,282,326</u>
Net assets					
Invested in capital assets, net related debt	2,074,059	65,869	1,191,391	3,331,319	—
Unrestricted	2,316,459	(1,044,440)	51,025	1,323,044	142,302
Total net assets	<u>\$ 4,390,518</u>	<u>(978,571)</u>	<u>1,242,416</u>	<u>4,654,363</u>	<u>142,302</u>

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

Internal service fund used by management to charge the cost of Worker's Compensation claims to individual funds. The assets and liabilities of the internal service funds are included in business-type activities in the statement of net assets.

Adjustment to reflect the consolidation of internal service activity related to enterprise funds.

Net assets of business-type activities

142,302
25,105
<u>\$ 4,821,770</u>

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

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

For the year ended December 31, 2003

	Business-type Activities				
	Enterprise Funds				Internal Service Fund
	County Nursing Home	Emergency Telephone	Other non-major funds	Totals	Worker's Compensation
Operating revenues:					
Charges for sales and services:					
County charges	\$ 18,485,720	2,190,387	1,052,614	21,728,721	945,643
Rentals and other revenues	12,395	—	—	12,395	—
Total operating revenues	18,498,115	2,190,387	1,052,614	21,741,116	945,643
Operating expenses:					
Patient/client services	14,467,347	2,732,908	1,861,418	19,061,673	—
Depreciation	949,802	787,469	292,568	2,029,839	—
Loss and loss adjusting	—	—	—	—	765,273
Administrative	2,999,390	144,450	2,491	3,146,331	132,176
Total operating expenses	18,416,539	3,664,827	2,156,477	24,237,843	897,449
Operating income (loss)	81,576	(1,474,440)	(1,103,863)	(2,496,727)	48,194
Nonoperating revenues (expenses):					
Grants	—	224,649	981,333	1,205,982	—
Interest income	28,676	19,164	109	47,949	7,544
Interest expense	(225,034)	(531,517)	(3,688)	(760,239)	—
Payment to municipalities	—	(79,828)	—	(79,828)	—
Other	108,183	—	24,076	132,259	—
Total net nonoperating revenues (expenses)	(88,175)	(367,532)	1,001,830	546,123	7,544
Income (loss) before operating transfers	(6,599)	(1,841,972)	(102,033)	(1,950,604)	55,738
Transfers in	11,651	930,681	158,299	1,100,631	—
Transfers out	—	(375,294)	(131,000)	(506,294)	—
Change in net assets	5,052	(1,286,585)	(74,734)	(1,356,267)	55,738
Total net assets - beginning, as restated	4,385,466	308,014	1,317,150		86,564
Total net assets - ending	\$ 4,390,518	(978,571)	1,242,416		142,302

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

The internal service fund is used by management to charge the cost of Worker's Compensation claims to individual funds. The net revenues of certain activities of the internal service fund are reported within business-type activities.	55,738
Adjustment to reflect the consolidation of internal service fund activity related to enterprise funds.	(19,343)
Change in net assets of business-type activities	\$ (1,319,872)

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Cash Flows
Proprietary Funds

For the year ended December 31, 2003

	Business-type Activities				
	Enterprise Funds			Internal	
	County	Emergency	Other non-	Service Fund	
	Nursing Home	Telephone	major funds	Worker's	
				Compensation	
Cash flows from operating activities:					
Cash received on surcharges	\$ —	2,423,205	—	2,423,205	—
Cash received on county charges	18,115,085	—	948,070	19,063,155	946,243
Payments to vendors	(4,641,151)	(1,037,369)	(938,402)	(6,616,922)	—
Payments to employees	(13,080,067)	(2,111,561)	(892,907)	(16,084,535)	(618,286)
Other receipts	101,072	—	15,276	116,348	—
Net cash provided by (used in) operating activities	<u>494,939</u>	<u>(725,725)</u>	<u>(867,963)</u>	<u>(1,098,749)</u>	<u>327,957</u>
Cash flows from noncapital financing activities:					
Subsidy from federal/state grants	—	—	729,329	729,329	—
Payments to municipalities	—	(79,828)	—	(79,828)	—
Transfers from other funds	—	663,763	185,140	848,903	—
Transfers to other funds	—	(375,294)	(131,000)	(506,294)	—
Proceeds from tax anticipation note	28,261,740	—	—	28,261,740	—
Principal paid on tax anticipation notes	<u>(28,261,740)</u>	<u>—</u>	<u>—</u>	<u>(28,261,740)</u>	<u>—</u>
Net cash provided by noncapital financing activities	<u>—</u>	<u>208,641</u>	<u>783,469</u>	<u>992,110</u>	<u>—</u>
Cash flows from capital financing activities:					
Subsidy from federal/state grants	—	224,649	258,365	483,014	—
Transfers from other funds	11,651	—	166,192	177,843	—
Purchase of capital assets	(482,592)	(522,896)	(327,226)	(1,332,714)	—
Principal paid on capital debt	(171,381)	(116,604)	(9,258)	(297,243)	—
Interest paid on capital debt	<u>(210,024)</u>	<u>(146,531)</u>	<u>(3,688)</u>	<u>(360,243)</u>	<u>—</u>
Net cash provided by (used in) capital financing activities	<u>(852,346)</u>	<u>(561,382)</u>	<u>84,385</u>	<u>(1,329,343)</u>	<u>—</u>
Cash flows from investing activities:					
Proceeds from the sale and maturities investments	—	1,094,334	—	1,094,334	—
Purchase of investments	(20,388)	(27,243)	—	(47,631)	—
Investment income received	<u>30,764</u>	<u>20,945</u>	<u>109</u>	<u>51,818</u>	<u>7,544</u>
Net cash provided by investing activities	<u>10,376</u>	<u>1,088,036</u>	<u>109</u>	<u>1,098,521</u>	<u>7,544</u>
Net increase (decrease) in cash and cash equivalents	(347,031)	9,570	—	(337,461)	335,501
Cash and cash equivalents, January 1	1,258,770	2,606	200	1,261,576	1,088,527
Cash and cash equivalents, December 31	<u>\$ 911,739</u>	<u>12,176</u>	<u>200</u>	<u>924,115</u>	<u>1,424,028</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 81,576	(1,474,440)	(1,103,863)	(2,496,727)	48,194
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:					
Depreciation expense	949,802	787,469	292,568	2,029,839	—
Nonoperating revenues (expenses)	108,183	—	24,076	132,259	—
Changes in assets and liabilities in:					
Due from other governments	(511,406)	—	(8,800)	(520,206)	—
Accounts receivable	(253,571)	232,818	—	(20,753)	600
Customer accounts receivable	—	—	17,784	17,784	—

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Cash Flows
Proprietary Funds

For the year ended December 31, 2003

	Business-type Activities				Internal
	Enterprise Funds			Totals	Service Fund
	County	Emergency	Other non-		Worker's
	Nursing Home	Telephone	major funds		Compensation
(Continued)					
Prepaid items	\$ 5,051	(3,797)	—	1,254	—
Other assets	15,372	11,016	—	26,388	—
Accounts payable	(163,074)	(289,147)	28,683	(423,538)	177,374
Accrued liabilities and withholdings	242,623	10,356	3,917	256,896	—
Due to other funds	—	—	(122,328)	(122,328)	—
Funds held as fiduciary	20,382	—	—	20,382	—
Long term debt-claims payable	—	—	—	—	101,789
Total adjustments	<u>413,362</u>	<u>748,715</u>	<u>235,900</u>	<u>1,397,977</u>	<u>279,763</u>
Net cash provided by (used in) operating activities	<u>\$ 494,938</u>	<u>(725,725)</u>	<u>(867,963)</u>	<u>(1,098,750)</u>	<u>327,957</u>

There were no non-cash financing and investing transactions.

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Fiduciary Funds

Statement of Fiduciary Net Assets

December 31, 2003

	Pension Trust – Employees Retirement	Agency Funds
Assets		
Cash and cash equivalents	\$ 4,265,926	2,961,196
Investments	78,465,782	—
Accrued interest	281,605	—
Total assets	83,013,313	2,961,196
Liabilities		
Accounts payable	—	8,042
Due to other funds	19	405,938
Due to other governments	—	899,750
Deferred revenue	—	983
Funds held as fiduciary	—	1,646,483
Total liabilities	19	2,961,196
Net assets		
Net assets held in trust for pension benefits	\$ 83,013,294	—

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Statement of Changes in Fiduciary Net Assets - Pension Trust Fund

For the year ended December 31, 2003

Additions:

Contributions:

Employer	\$ 1,192,646
Plan members	1,977,344
Total contributions	<u>3,169,990</u>

Investment income:

Net appreciation in fair value of investments	13,465,533
Interest	1,095,819
Dividends	<u>685,087</u>
Net investment income	<u>15,246,439</u>
Total additions	<u>18,416,429</u>

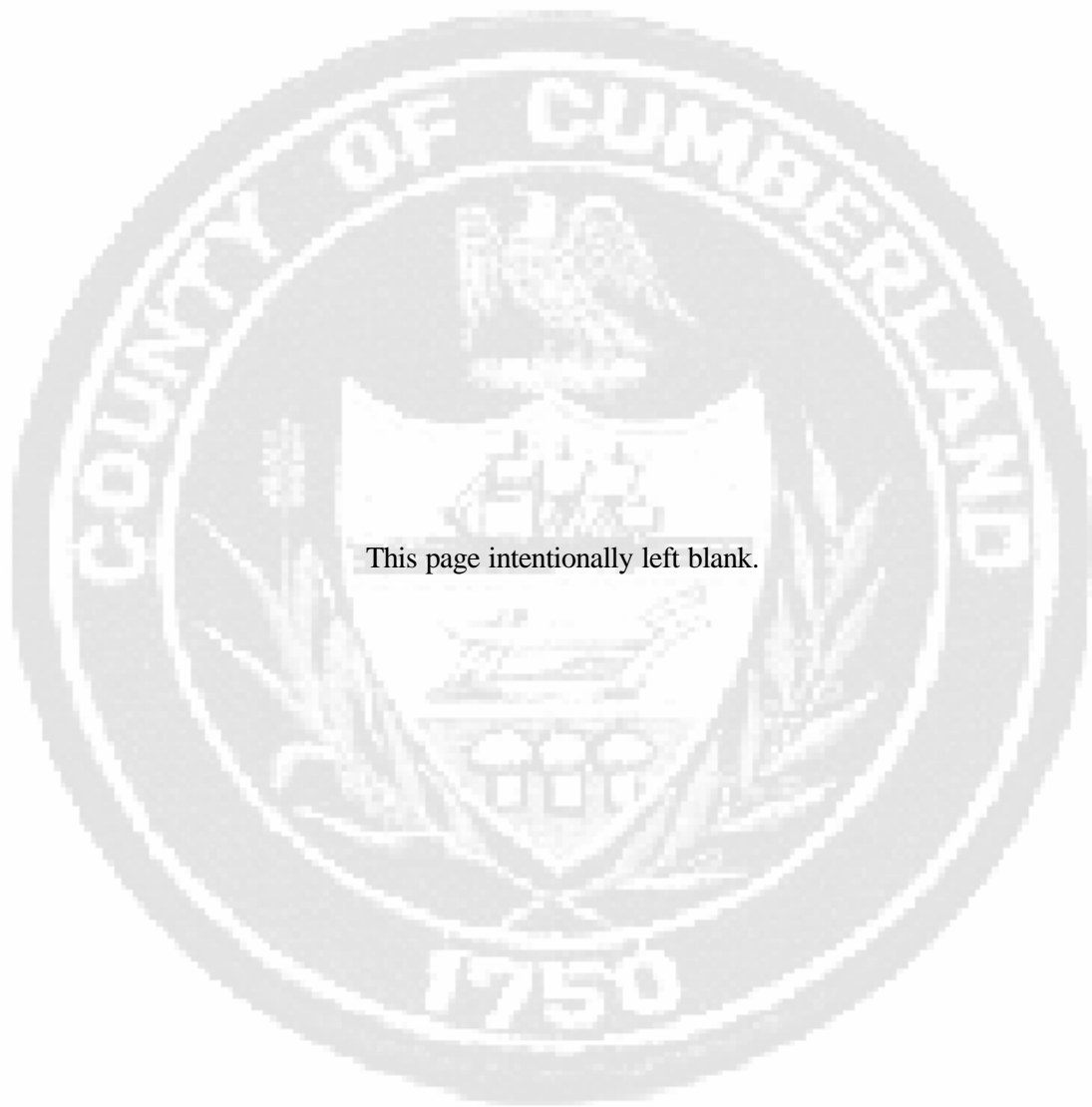
Deductions:

Benefits	2,812,176
Refunds of contributions	472,612
Administrative expenses	<u>296,434</u>
Total deductions	<u>3,581,222</u>
Change in net assets	14,835,207

Net assets:

Beginning of year	<u>68,178,087</u>
End of year	<u>\$ 83,013,294</u>

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



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Notes to the Financial Statements

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

1. Summary of Significant Accounting Policies

The financial statements of Cumberland County have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principals. The more significant of the County's accounting policies are described below.

A. The Reporting Entity

The County of Cumberland is located in south central Pennsylvania, to the immediate west of the City of Harrisburg, the capital of the Commonwealth. It is a County of the fourth class founded January 27, 1750, and operates under an elected three-member Board of Commissioners. The County provides services in many areas to its 217,743 residents, including various general governmental services, health and welfare, and community enrichment programs.

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

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

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

The component units discussed below are included in the County's reporting entity.

(1) *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 are two such component units reported this way.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

(2) *Discretely Presented Component Units*

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

Cumberland County Conservation District

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

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

Cumberland County Industrial Development Authority (IDA)

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

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

(3) *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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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. 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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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
Cumberland County Commission for Women
Cumberland County Blighted Property Reinvestment Board
Drug & Alcohol Commission Advisory Board
Economic Development Steering Committee
Economic Development Task Force
Harrisburg Area Transportation Study Technical Committee
LeTort Regional Authority
Local Emergency Planning Committee
Mental Health/Mental Retardation Advisory Board
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

(4) *Joint Ventures*

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

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

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

Selected disclosures from CAT'S 2003 audited financial statements are:

Fiscal year:	June 30, 2003
Operating revenues	\$ 6,347,629
Operating expenses	14,160,202
Loss from operations	(7,812,573)
Total nonoperating revenues (expenses)	6,366,127
Capital grant funding	804,040
Net assets	12,937,482
Unrestricted deficit	(1,474,712)

CAT disclosed an unrestricted accumulated deficit of \$1,474,712 as of June 30, 2003. 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. In November 2003, CAT issued new debt, Revolving Revenue Note of 2003, in the amount up to \$1,400,000. The proceeds are available for operations, purchase of equipment, route expansion and repayment of the outstanding balances on CAT's line of credit. The Note is secured by assignment of subsidy payments from the County, the City of Harrisburg, and Dauphin County under the terms of the Mass Transit Service and Funding Agreement (Agreement). Per the Agreement, the County's annual subsidy payment is \$218,888. In addition, the County pays \$11,000 per year to CAT for transportation services for Shippensburg Borough. In 2003, the County paid \$229,888 to CAT.

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

B. Basis of presentation

The basic financial statements of the County have been prepared in accordance with accounting principals generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments. For the year ended December 31, 2003, the County has newly adopted GASB Statement No. 34, "*Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments.*"

Among other things, GASB Statement No. 34 requires presentation of government-wide and fund financial statements and numerous changes to how fund financial statements are presented.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

Effective January 1, 2003, as part of implementing GASB Statement No. 34, the County has restated numerous fund balance amounts previously reported at December 31, 2002. Note 2 to the financial statements provides a more detailed explanation of the restatement.

C. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. County real estate taxes and other revenues not directly relating to a specific program are reported instead as *general revenue*.

The government-wide statements do not include the fiduciary activities of the primary government. For the most part, intergovernmental activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds (General Fund, MH/MR, Children and Youth and HealthChoices-Cumberland County) and major individual enterprise funds (County Nursing Home and Emergency Telephone) are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements.

The government-wide financial statements report revenues when earned and expenses when the liability is incurred regardless of the timing of related cash flows. County taxes are reported as revenue in the year for which they are levied. Grants and similar revenues are deemed earned when all eligibility requirements imposed by the provider have been met. Disbursement of grant funds in payment of program costs is

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

typically an eligibility criterion. Any excess of grant receipts or grant expenditures at year end is recorded as deferred revenue or accounts receivable, respectively.

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

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

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

The County reports the following major governmental funds:

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

The *Mental Health/Mental Retardation (MH/MR) Fund* accounts for the administration of a wide range of services to persons with mental disabilities in Cumberland and Perry counties.

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

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

The County reports the following major proprietary funds:

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

The *Emergency Telephone Fund* accounts for the operation of the County's emergency 911 communication center.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

Additionally, the County reports the following fund types:

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

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

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

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

E. Interfund Eliminations

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

F. Program Revenues

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

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

G. Net Patient Service Revenue

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

H. Operating and Nonoperating Revenues

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Operating revenues consist principally of billings for medical care, pharmaceuticals and room and board at the County Nursing Home. Operating revenues consist of tuition in the Early Learning Center; taxes

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

charged to phone customers in the Emergency Telephone Fund; and fees assessed to material handlers in Hazardous Materials.

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

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

I. Fund Equity/Net Assets

Reserved fund balances represent those portions of fund equity not appropriable for expenditure or that are legally segregated for a specific future use.

Designated fund balances represent the County's managerial plans for future use of financial resources.

J. Deposits and Investments

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

The County's investment policy covers all County cash and investments except retirement funds and funds held in escrow. The County's investment policy permits investments in U.S. Treasury Bills and investments backed by the full faith and credit of the U.S. Government and the Commonwealth of Pennsylvania. In addition, bank certificates of deposit, and statutorily permitted money market funds or government investment pools are permitted as are statutorily permitted commercial paper of the highest quality.

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

The Pension Trust Fund may invest in asset-backed securities issued by private-sector financial services corporations.

K. Restricted Assets and Related Liabilities

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

Restricted cash and investments in governmental activities consist of general obligation bond and note proceeds restricted to expenditure on the implementation of a Countywide enterprise resource planning

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

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system, planning and engineering on the proposed I-81 Exit 44, and Commonwealth funds held by the County to be disbursed to other counties in the form of assisted technology grants.

Restricted cash and investments in business-type activities consist principally of general obligation bond proceeds restricted to construction and asset acquisition at the County's nursing home and emergency telephone center. Resident money held in a fiduciary capacity are also reported as restricted cash.

L. Capital Assets

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

Maintenance, repairs, and equipment less than the capitalization threshold are charged to operations when incurred. Costs that materially change capacities or extend useful lives are capitalized. Upon sale or retirement the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results in operations.

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

Buildings and systems, bridges, vehicles, office equipment and computer equipment are depreciated using the straight-line method at half year conventions over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Systems	10-20
Bridges	50
Vehicles	6
Office Equipment	5-7
Computer Equipment	5

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M. Compensated Absences

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

- Upon termination, all unused vacation time up to a maximum of 30 days, will be paid with the final check.
- Upon termination, employees will be paid for one half of their total unused sick time up to a maximum of 45 days. Two types of sick leave exist within the County. 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.

N. Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond discounts, as well as issuance costs, are deferred and amortized on the straight-line basis, which approximates the effective interest methods over the bond term. Bonds payable are reported net of applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the bond term.

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

O. Risk Management, Including Self Insurance

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

The County establishes claims liabilities for its workers' compensation self-insurance activities. The liability is based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the claims involved. Estimated amounts of

COUNTY OF CUMBERLAND, PENNSYLVANIA

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subrogation and reinsurance that are recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of

legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

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

P. Fund Balance Reserves and Designations

Fund balances have been reserved in the governmental funds for specific purposes. Reserves have been established as follows:

(1) Reserved for Prepaid Items

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

(2) Reserve for Farmland Preservation

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

(3) Reserve for Offenders' Supervision

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

(4) Reserve for Criminal Investigation

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

Designation of fund balance have been established to set aside funding as follows:

COUNTY OF CUMBERLAND, PENNSYLVANIA

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(1) Future capital projects

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

(2) Future debt service arbitrage payments

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

Q. Retirement Benefits

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

R. Use of Estimates

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

S. New Accounting Pronouncements

Effective January 1, 2003 the County implemented the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". GASB No. 34 establishes new financial reporting standards for state and local governments throughout the United States.

Other GASB statements are required to be implemented in conjunction with GASB No. 34. Therefore, the County has implemented the following GASB statements in the current fiscal year: Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures."

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

In March 2003, 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 2005 financial statements.

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In November 2003, the GASB issued Statement No. 42, "Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The County is required to adopt GASB Statement No. 42 for its 2005 financial statements.

T. Beginning of Year Net Asset Restatement

As part of the implementation of GASB 34, the County updated its capital assets records for bridges in accordance with the County's new capitalization and depreciation policies. The bridges were valued at historical cost or estimated historical cost if actual historical cost was not available. Accordingly, the County made a retroactive adjustment to its beginning of the year net asset balances to reflect the County's updated capital asset amounts and any related change in accumulated depreciation.

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Notes to Financial Statements

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2. Restatement of Beginning Balances

As a result of the County's adoption of GASB Statement No. 34, as of January 1, 2003 the County restated its beginning balances. The following schedule reconciles the December 31, 2002 governmental funds - fund balances as previously reported to the beginning net assets – governmental activities column in the government-wide financial statements.

December 31, 2002 fund balance as previously reports - governmental funds:

General Fund	\$ 6,838,671
Special Revenue Funds	4,110,240
Debt Service Fund	4,365
Capital Projects Funds	<u>2,808,539</u>
Total governmental funds - December 31, 2002 fund balance as previously reported	<u>13,761,815</u>

Restatement adjustments:

Adoption of GASB Statement No. 34	
Fund type reclassification of the landfill post closure trust fund from an expendable trust fund to a special revenue fund	638,840
Establishment of bond issue costs	115,053
Revenue recognition related to receivables deferred in the funds	2,162,454
Capital asset recognition	49,959,358
Accumulated depreciation on capital assets	(30,091,540)
Capitalization of easement costs	16,909,970
Construction in progress recognition	313,023
Accrued interest payable	(44,452)
Long-term compensated absences liability	(2,575,138)
Capital leases	(113,581)
Notes payable	(962,886)
General obligation bonds	(9,584,968)
Workers' compensation	<u>(44,448)</u>
Total governmental activities column - net assets as of December 31, 2002	<u>\$ 40,443,500</u>

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

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3. Reconciliation of government-wide and fund financial statements

a. Explanation of certain difference between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$13,316,374 difference are as follows:

Bonds payable	\$	8,872,954
Capital leases payable		34,763
Notes payable		1,615,000
Compensated absences		<u>2,793,657</u>
Net adjustment to reduce <i>fund balance-total governmental funds to arrive at net assets-governmental activities</i>	\$	<u><u>13,316,374</u></u>

b. Explanation of certain difference between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “*Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.*” The details of this \$1,834,101 difference are as follows:

Capital outlay	\$	3,802,696
Depreciation		<u>(1,968,595)</u>
Net adjustment to increase <i>fund balance-total governmental funds to arrive at net assets-governmental activities</i>	\$	<u><u>1,834,101</u></u>

COUNTY OF CUMBERLAND, PENNSYLVANIA

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Another element of that reconciliation states that “*The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.*” The details of this \$138,718 difference are as follows:

Debt issued:	
Notes payable	\$ (715,000)
Principal repayments:	
Notes payable	62,886
Capital leases	78,818
General obligation debt	<u>712,014</u>
Net adjustment of increase <i>net changes in fund balance-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities.</i>	\$ <u><u>138,718</u></u>

4. 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 (Category 3), 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).

COUNTY OF CUMBERLAND, PENNSYLVANIA

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		Category			Bank	Carrying
		1	2	3	balance	amount
Governmental activities						
Cash and cash equivalents:						
Demand deposits	\$	200,000	986,711	4,070,444	5,257,155	4,090,280
Certificates of deposit		100,000	—	9,274,000	9,374,000	9,374,000
Total cash and cash equivalents	\$	300,000	986,711	13,344,444	14,631,155	13,464,280
Business-type activities						
Cash and cash equivalents:						
Demand deposits	\$	200,000	—	1,406,981	1,606,981	1,553,143
Certificates of deposit		100,000	—	695,000	795,000	795,000
Total cash and cash equivalents	\$	300,000	—	2,101,981	2,401,981	2,348,143
Fiduciary funds						
Cash and cash equivalents:						
Demand deposits	\$	—	1,622,124	5,625,530	7,247,654	7,227,122
Total cash and cash equivalents	\$	—	1,622,124	5,625,530	7,247,654	7,227,122
Component units						
Cash and cash equivalents:						
Demand deposits	\$	90,000	89,496	5,059	184,555	183,923
Certificates of deposit		—	—	200,000	200,000	200,000
Total cash and cash equivalents	\$	90,000	89,496	205,059	384,555	383,923

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Notes to Financial Statements

December 31, 2003

5. Investments

The investments of the County at December 31, 2003, have been categorized to indicate the level of risk assumed by the County. The County's investments in Category 1 are insured by the Federal Depository Insurance Company. The County's investments in Category 3 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.

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The fair value and category of the investments of the County at December 31, 2003, were as follows:

	Category				Total Carrying Value	Total Fair Value
	1	2	3	Uncategorized		
Governmental activities						
Investments:						
US Treasury securities	\$ 100,000	—	751,820	—	851,820	851,820
Certificates of deposit	100,000	—	50,000	—	150,000	150,000
Coporate Debt				384,627	384,627	384,627
Total investments	\$ 200,000	—	801,820	384,627	1,386,447	1,386,447
Business-type activities						
Investments:						
Corporate debt	\$ 100,000	—	—	3,118,308	3,218,308	3,218,308
Total investments	\$ 100,000			3,118,308	3,218,308	3,218,308
Fiduciary funds						
Investments:						
U.S. Government securities	\$ —	—	22,648,542	—	22,648,542	22,648,542
Corporate bonds	—	—	7,983,672	—	7,983,672	7,983,672
Corporate stocks	—	—	27,161,193	—	27,161,193	27,161,193
Mutual funds	—	—	—	11,445,179	11,445,179	11,445,179
Investment contracts	—	—	—	9,227,196	9,227,196	9,227,196
Total investments	\$ —	—	57,793,407	20,672,375	78,465,782	78,465,782
Component units						
Investments:						
Certificates of deposit	\$ —	—	72,742	—	72,742	72,742
Total investments	\$ —	—	72,742	—	72,742	72,742

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The Pension Trust Fund has approximately \$703,103 invested in asset-backed securities issued by private sector financial services corporations. The Pension Trust Fund purchased those instruments to increase the total rate of return for the portfolio. All asset-backed securities are rated AAA by national credit rating agencies. The market risk relating to these instruments is minimal and similar to that of a non-derivative product.

6. 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 2003, 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.

7. Due from Other Governments and Accounts Receivable

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2003. Additionally, the County Nursing Home has \$2,935,287 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 \$627,528 against the patient accounts receivable.

Accounts receivable in the governmental activities includes \$1,287,554 of court costs and fines.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

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8. 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, 2003:

<u>Fund/Department</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Percent of excess over appropriation</u>
Special Revenue:			
Children & Youth	9,265,645	9,558,371	3.16%
HealthChoices Cumberland County	10,554,225	11,631,837	10.21%

The appropriations shown for these funds cover the fiscal year July 1, 2002 through June 30, 2003. All expenditure figures are reported based on 2003 calendar year (January – December) activities thus the reason for the over-appropriation.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

9. Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 1,673,028	\$ -	\$ -	\$ 1,673,028
Construction in progress	313,023	1,302,845	-	1,615,868
Agricultural easements	16,909,970	995,122	-	17,905,092
Total capital assets, not being depreciated	<u>18,896,021</u>	<u>2,297,967</u>	<u>-</u>	<u>21,193,988</u>
Capital assets, being depreciated:				
Buildings and systems	32,570,852	321,087	-	32,891,939
Improvements other than buildings	54,566	-	-	54,566
Machinery and equipment	8,886,531	1,183,642	(410,036)	9,660,137
Bridges	6,774,381	-	-	6,774,381
Total capital assets being depreciated	<u>48,286,330</u>	<u>1,504,729</u>	<u>(410,036)</u>	<u>49,381,023</u>
Less accumulated depreciation for:				
Buildings and systems	(19,104,532)	(839,865)		(19,944,397)
Improvements other than buildings	(44,860)	(2,728)		(47,588)
Machinery and equipment	(5,949,466)	(997,352)	377,805	(6,569,013)
Bridges	(4,992,682)	(128,650)		(5,121,332)
Total accumulated depreciation	<u>(30,091,540)</u>	<u>(1,968,595)</u>	<u>377,805</u>	<u>(31,682,330)</u>
Total capital assets, being depreciated, net	<u>18,194,790</u>	<u>(463,866)</u>	<u>(32,231)</u>	<u>17,698,693</u>
Governmental activities capital assets, net	<u>\$ 37,090,811</u>	<u>\$ 1,834,101</u>	<u>\$ (32,231)</u>	<u>\$ 38,892,681</u>

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Notes to Financial Statements

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9. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 832,854	\$ -	\$ (832,854)	\$ -
Total capital assets, not being depreciated	<u>832,854</u>	<u>-</u>	<u>(832,854)</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings and systems	25,433,443	571,655		26,005,098
Improvements other than buildings	531,519	18,096		549,615
Machinery and equipment	10,895,856	1,587,541	(3,092)	12,480,305
Total capital assets being depreciated	<u>36,860,818</u>	<u>2,177,292</u>	<u>(3,092)</u>	<u>39,035,018</u>
Less accumulated depreciation for:				
Buildings and systems	(7,542,669)	(927,180)	-	(8,469,849)
Improvements other than buildings	(136,246)	(26,856)		(163,102)
Machinery and equipment	(4,689,605)	(1,075,803)	3,092	(5,762,316)
Total accumulated depreciation	<u>(12,368,520)</u>	<u>(2,029,839)</u>	<u>3,092</u>	<u>(14,395,267)</u>
Total capital assets, being depreciated, net	<u>24,492,298</u>	<u>147,453</u>	<u>-</u>	<u>24,639,751</u>
Business-type activities capital assets, net	<u>\$ 25,325,152</u>	<u>\$ 147,453</u>	<u>\$ (832,854)</u>	<u>\$ 24,639,751</u>

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Notes to Financial Statements

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9. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Component units:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 108,923	\$ 26,213	\$ (1,000)	\$ 134,136
Total capital assets being depreciated	108,923	26,213	(1,000)	134,136
Less accumulated depreciation for:				
Machinery and equipment	(53,986)	(19,196)	1,000	(72,182)
Total accumulated depreciation	(53,986)	(19,196)	1,000	(72,182)
Total capital assets, being depreciated, net	54,937	7,017	-	61,954
Component unit capital assets, net	\$ 54,937	\$ 7,017	\$ -	\$ 61,954

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Depreciation expense was charged to the functions/programs of the County in 2003 as follows:

Governmental activities:

General Government	\$	1,071,826
Public Safety		586,262
Roads and Bridge Maintenance		128,650
Solid Waste Management		51,013

Human services:

Mental Health/Mental Retardation		37,009
Children and Youth		27,627
Food and Shelter		4,056
Office of Aging		24,086
Other		35,168

Conservation		2,898
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Total depreciation expense - governmental activities	\$	<u><u>1,968,595</u></u>
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Business-type activities:

Emergency Telephone	\$	787,469
Hazardous Materials Protection		13,073
Transportation Services		266,932
County Nursing Home		949,802
Early Learning Center		12,563

Total depreciation expense - business-type activities	\$	<u><u>2,029,839</u></u>
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10. Interfund and Transfer Accounts

The composition of interfund balances at December 31, 2003 follows:

	<u>Interfund receivables</u>	<u>Interfund payables</u>
Governmental Funds:		
General Fund	\$ 5,180,287	\$ —
Mental Health/Mental Retardation	—	135,138
Children and Youth	—	2,862,713
HealthChoices-Cumberland County	—	23,016
Other non-major funds	814,487	1,781,065
	<u>5,994,774</u>	<u>4,801,932</u>
Enterprise Funds:		
County Nursing Home	—	371,772
Early Learning Center	9,856	—
Emergency Telephone	—	562,142
Transportation	136,394	—
Hazardous Materials	779	—
	<u>147,029</u>	<u>933,914</u>
Fiduciary Funds:		
Pension trust fund	—	19
Agency funds:		
Clerk of Courts	—	152,212
Prothonotary	—	45,461
Recorder of Deeds	—	163,851
Treasurer	—	579
Register of Wills	—	24,493
Sheriff	—	14,923
District Attorney	—	4,419
	<u>—</u>	<u>405,957</u>
Total primary government	<u>\$ 6,141,803</u>	<u>\$ 6,141,803</u>

The balances due to the general fund from the various agency funds was a result of general fund receipts collected by the agency funds that are due back to the general fund. The remaining interfund payable balances for the governmental and proprietary funds are the result of normal business

COUNTY OF CUMBERLAND, PENNSYLVANIA

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processes at the County where the general fund pays outstanding bills and invoices on their behalf. The general fund is reimbursed biweekly, or as funds become available.

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

The composition of interfund transfers for the year ended December 31, 2003 follow:

	Transfers in	Transfers out
Governmental Funds:		
General	\$ 602,672	\$ 5,569,992
Mental Health/Mental Retardation	457,660	62,885
Children and Youth	1,481,357	111,896
HealthChoices-Cumberland County	—	—
Other non-major funds	2,990,557	381,810
	<u>5,532,246</u>	<u>6,126,583</u>
Enterprise Funds:		
County Nursing Home	11,651	—
Early Learning Center	88,346	—
Emergency Telephone	930,681	375,294
Transportation	11,725	131,000
Hazardous Materials	58,228	—
	<u>1,100,631</u>	<u>506,294</u>
Total primary government	<u>\$ 6,632,877</u>	<u>\$ 6,632,877</u>

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

11. Short-term Debt

On October 8, 2003 and October 9, 2003, the County issued two Tax Revenue Anticipation Notes in the amount of \$14,130,870 each related to the Pennsylvania Intergovernmental Medical Assistance Pooling Act. In connection with this Act, municipalities pool funds in order to facilitate medical assistance reimbursement from the Commonwealth of Pennsylvania. On October 8 and October 9, 2003, the County repaid \$28,261,740 related to these Tax Revenue Anticipation Notes. There was no outstanding balance at December 31, 2003 related to the issuance of this short-term debt during 2003. Short-term debt activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax Revenue Anticipation Notes	\$ —	\$ 28,261,740	\$ 28,261,740	\$ —

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

12. Long-term Debt

The following is a summary of the changes in the County's long-term liabilities for the year ended December 31, 2003:

Liability	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Due Within One Year
Governmental activities:					
Bonds	\$ 9,584,968	-	712,014	8,872,954	859,633
Sick and vacation	2,575,138	218,519	-	2,793,657	-
Notes	962,886	715,000	62,886	1,615,000	900,000
Capital leases	113,581	-	78,818	34,763	22,015
Governmental activity long-term liabilities	\$ 13,236,573	933,519	853,718	13,316,374	1,781,648
Business-type activities:					
Bonds	\$ 24,889,162	-	271,710	24,617,452	380,367
Sick and vacation	880,266	(47,586)	-	832,680	-
Bond arbitrage	-	375,301	-	375,301	-
Workers compensation	408,780	690,657	408,780	690,657	-
Capital leases	50,285	-	9,259	41,026	10,028
Business-type activity long-term liabilities	\$ 26,228,493	1,018,372	689,749	26,557,116	390,395
Component Unit					
Conservation District sick and vacation-long-term liabilities	\$ 35,314	4,709	-	40,023	-

For the governmental activities, bonds are exclusively liquidated by the General Fund.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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

All bonds outstanding at December 31, 2003 are general obligation debt supported by the full faith and credit of the County and are summarized as follows:

General obligation bonds and notes payable at December 31, 2003 consisted of the following:

	Interest rate	Final maturity	Governmental activities	Business- type activities
G.O. bonds – 1999 issue	3.30% – 4.35%	2012	\$ 4,146,093	\$ 113,907
G.O. bonds – 2000 issue	Variable rate	2020	—	10,925,000
G.O. bonds – 2001 issue	Variable rate	2021	—	9,050,000
G.O. note – 2001 issue	3.375%	2004	900,000	—
G.O. bonds- 2002 issue	1.6% – 4.35%	2017	4,726,861	4,673,139
G.O. note – 2003 issue	5.857%	2022	715,000	—
Long-term debt at December 31, 2003			10,487,954	24,762,046
Less unamortized charges			—	144,594
Net long-term debt at December 31, 2003			\$ 10,487,954	\$ 24,617,452

Of the outstanding balance of the 1999 bond issue, \$113,907 of the principal has been accounted for in the County Nursing Home Fund.

Of the outstanding balance of the 2000 bond issue, \$3,815,010 of the principal has been accounted for in the County Nursing Home Fund and \$7,109,990 of the principal has been accounted for in the Emergency Telephone Fund.

Of the outstanding balance of the 2001 bond issue, \$7,386,610 of the principal has been accounted for in the County Nursing Home Fund and \$1,663,390 of the principal has been accounted for in the Emergency Telephone Fund.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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

Of the outstanding balance of the 2002 bond issue, \$2,908,193 of the principal and \$85,943 of the unamortized charge – bond refunding has been accounted for in the County Nursing Home Fund and \$1,764,946 of the principal and \$58,651 of the unamortized charge – bond refunding has been accounted for in the Emergency Telephone Fund.

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.

In 2001, 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.

In March 2003 the County paid \$62,886 in final payment of a general obligation note that was issued in 2002 and secured on behalf of Capital Area Behavioral Health Collaborative Inc.

The remaining outstanding balance of 1998 general obligation bonds, defeased in 2002, were called and fully paid on May 1, 2003.

The County's legal debt margin was \$254,932,953 as of December 31, 2003.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

The annual debt service requirements for the next five years and thereafter in five-year increments on long-term debt outstanding as of December 31, 2003, including interest payments, are as follows:

		Governmental- type activities		Business- type activities	
		Principal	Interest	Principal	Interest
2004	\$	1,759,633	349,039	380,367	1,134,078
2005		1,001,652	321,830	413,348	1,128,602
2006		1,053,428	290,342	401,572	1,121,707
2007		1,084,537	255,103	410,463	1,113,893
2008		1,124,454	215,983	420,546	1,104,448
2009-2013		2,909,250	649,715	5,625,750	4,971,537
2014-2018		840,000	282,948	9,835,000	3,071,188
2019-2023		715,000	167,310	7,275,000	544,271
Total	\$	10,487,954	2,532,270	24,762,046	14,189,724

13. Negative Net Assets

The County's emergency telephone fund has negative net assets of \$978,571 at December 31, 2003. This deficit will be alleviated as debt service payments are made on the bond that financed the purchase of new 800 MHz radios for other County municipalities and other County offices. To the extent that the emergency telephone fund is unable to generate sufficient cash to fund future debt service payments and fully cover operating costs, additional transfers-in will be provided by the County's general fund.

14. Leases

A. Operations

The County leases office equipment and vehicles for various County offices and building space for certain County and District Justice offices. The County's office equipment and vehicle lease terms range from three to five years. The County's building leases contain fixed scheduled rent payable monthly. Building leases have expiration dates extending through 2011. Total expenses for such leases were \$423,634 for the year ended December 31, 2003.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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, 2003:

<u>Year ending December 31,</u>	<u>Lease payments</u>
2004	\$ 375,721
2005	259,208
2006	184,835
2007	116,482
2008	74,606
2009-2014	<u>150,047</u>
Total	<u>\$ 1,160,899</u>

B. Capital Lease Obligation

The County financed the purchase of a time keeping system under a long-term capital lease in addition to leasing eleven vehicles under capital leases. Annual interest rates ranged from 5.55% to 8% on the County's capital leases in effect at December 31, 2003.

The assets acquired through capital leases are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>
Asset:		
Machinery and equipment	\$ 411,610	\$ 1,350
Less: Accumulated depreciation	(191,885)	(289)
Machinery and equipment, net	<u>\$ 219,725</u>	<u>\$ 1,061</u>
Building and systems		\$ 7,995
Less: Accumulated depreciation		(600)
Buildings and systems, net		<u>\$ 7,395</u>

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

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, 2003:

	Governmental activities	Business-type activities
2004	\$ 23,186	\$ 12,947
2005	5,837	12,947
2006	5,837	12,947
2007	1,945	8,631
Total minimum lease payments	36,805	47,472
Less amount representing interest	(2,042)	(6,446)
Present value of net minimum lease payments	\$ 34,763	\$ 41,026

15. Cumberland County Retirement Plan

A. Plan Description

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

As of December 31, 2003, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	340
Terminated plan members entitled to but not yet receiving benefits	86
Active plan members	<u>1,100</u>
Total	<u>1,526</u>

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

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

retirement age. The Plan also provides for death and disability benefits. Cost-of-living adjustments for pensioners are provided at the discretion of the Retirement Board and must be reviewed once every 3 years.

B. 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 2003 the County contributed \$1,192,646 to the Plan in accordance with actuarially determined contribution requirements, determined through an actuarial valuation performed at December 31, 2003 and state law, using the following assumptions:

	December 31, 2003
Investment rate of return	7.5%
Projected salary increases	3%-4.5%; graduated ¼ 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 89 of this report.

16. 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, 2003.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

17. Commitments and Contingencies

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.

18. 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 worker's compensation occurrence. The County purchases commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded this commercial coverage in the last three years of self-insurance.

All County employees are covered by the Workers' Compensation Fund and funds of the County participate in the program and make payments to the Workers' Compensation Fund based on estimates of the amounts needed to pay prior and current year claims. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. Changes in the Fund's claims liability (net of excess insurance) for the two years ended December 31, 2003, were:

		Provision for claims		Claim payments		End of year liability
	Beginning of year liability	Current year	Prior years	Current year	Prior year	
2003	\$ 997,649	482,993	282,281	89,338	403,219	1,270,366
2002	\$ 869,411	355,257	420,661	81,425	566,255	997,649

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

19. 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 on-going obligation for the bonds and does not include the debt in its financial statements.

As of December 31, 2003, there were twenty series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$388 million.

B. Cumberland County Industrial Development Authority (IDA)

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

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

The IDA, as a result of the assignments, has no on-going obligation for the debt and does not include the debt or related installment sales agreements in the financial statements of its operating fund. As of December 31, 2003, the projects had \$24,204,576 in outstanding principal balances.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Financial Statements

December 31, 2003

20. Subsequent Events

On June 15, 2004 the County issued general obligation bonds in the amount of \$7,930,000. The proceeds will be used to refund the County's general obligation bonds-1999 issue, promote farmland preservation, open space and greenways, finance the remaining phase of the enterprise resource planning software implementation and other capital projects.

Required Supplementary Information

COUNTY OF CUMBERLAND, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budget Basis)
General Fund

For the year ended December 31, 2003

	Budget		Actual Amounts	Variance with Amended Budget
	Original	Amended		
Revenues:				
Taxes:				
Real estate taxes	\$ 26,663,004	26,663,004	27,115,883	452,879
Per capita taxes	670,387	670,387	663,566	(6,821)
Library taxes	1,357,078	1,357,078	1,370,468	13,390
Licenses and permits	107,988	107,988	91,648	(16,340)
Grants	3,301,314	3,476,727	3,206,397	(270,330)
County charges	5,500,089	5,500,089	6,464,672	964,583
Court costs, fines, and forfeits	930,650	930,650	893,327	(37,323)
Interest	414,537	414,537	363,940	(50,597)
Contributions and other	1,696,569	1,778,044	1,631,672	(146,372)
Payment in lieu of taxes	61,144	61,144	78,309	17,165
Total revenues	<u>40,702,760</u>	<u>40,959,648</u>	<u>41,879,882</u>	<u>920,234</u>
Expenditures:				
Current:				
General government – administrative:				
Commissioners	590,158	593,960	557,084	36,876
Solicitor	246,010	244,016	227,147	16,869
Elections	580,872	705,872	712,379	(6,507)
Controller	756,194	762,538	753,355	9,183
Budget	449,541	488,286	453,656	34,630
Tax Claims	274,838	265,356	250,120	15,236
Treasurer	221,312	221,942	224,544	(2,602)
Tax collectors administration	367,664	368,974	323,904	45,070
Personnel	340,613	318,248	291,176	27,072
Tax assessment	1,236,101	1,247,929	1,190,263	57,666
Recorder of Deeds	423,090	421,136	401,303	19,833
Administrative services	142,198	150,745	141,208	9,537
Data processing	1,268,969	1,458,028	1,289,386	168,642
Insurance	260,660	260,660	248,672	11,988
Human services fiscal operations	112,288	137,723	138,287	(564)
County buildings	1,200,826	1,337,537	1,294,058	43,479
Economic development	93,833	93,833	79,317	14,516
Total general government – administrative	<u>8,565,167</u>	<u>9,076,783</u>	<u>8,575,859</u>	<u>500,924</u>
General government – judicial:				
Building security	378,277	384,198	354,841	29,357
Courts	1,851,166	1,865,655	1,808,335	57,320
Court appointed advocate	71,244	81,772	74,847	6,925
District Justices	1,668,443	1,689,390	1,628,663	60,727
Law Library	100,673	100,673	100,219	454
Clerk of Courts	463,273	469,986	459,650	10,336
Coroner	323,479	325,649	331,414	(5,765)
Court Administrator	71,329	73,906	70,986	2,920
Public Defender	778,026	834,661	826,470	8,191
District Attorney	1,730,010	1,789,969	1,939,803	(149,834)
STOP Violence Against Women Program	108,513	108,513	211,448	(102,935)
Insurance Fraud/Auto Theft Prevention Program	265,903	265,903	236,596	29,307

COUNTY OF CUMBERLAND, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budget Basis)
General Fund

For the year ended December 31, 2003

	Budget		Actual Amounts	Variance with Amended Budget
	Original	Amended		
Expenditures (continued):				
Current (continued):				
General government - judicial (continued):				
Prothonotary	\$ 375,575	378,475	382,409	(3,934)
Register of Wills	346,274	290,993	272,206	18,787
Sheriff	1,778,795	1,803,626	1,972,936	(169,310)
Grant Administration Program	538,487	538,273	350,589	187,684
Offender Supervision Program	246,617	281,512	235,172	46,340
Total general government – judicial	<u>11,096,084</u>	<u>11,283,154</u>	<u>11,256,584</u>	<u>26,570</u>
Public safety:				
Prison	6,005,986	6,045,042	6,114,174	(69,132)
Probation and parole	2,798,175	2,827,091	2,796,774	30,317
Emergency management & communications	152,355	590,418	550,668	39,750
Vector control	198,211	204,785	173,201	31,584
Fire training	73,127	89,244	86,805	2,439
Highway safety	129,581	129,700	130,826	(1,126)
Public safety	358,255	—	—	—
Total public safety	<u>9,715,690</u>	<u>9,886,280</u>	<u>9,852,448</u>	<u>33,832</u>
Human services	967,484	972,601	862,989	109,612
Culture and recreation	2,696,111	2,696,751	2,660,558	36,193
Conservation and development	1,338,750	1,449,157	2,200,691	(751,534)
Other	832,782	344,621	11,148	333,473
Total expenditures	<u>35,212,068</u>	<u>35,709,347</u>	<u>35,420,277</u>	<u>289,070</u>
Excess of revenues over expenditures	<u>5,490,692</u>	<u>5,250,301</u>	<u>6,459,605</u>	<u>(1,209,304)</u>
Other financing sources (uses):				
Transfers in	384,198	515,572	867,757	352,185
Transfers out	(5,859,688)	(6,673,732)	(5,835,076)	838,656
Transfers out to component unit	(48,500)	(48,500)	(48,500)	—
Proceeds from the issuance of long-term note	—	—	715,000	715,000
Total other financing sources (uses)	<u>(5,523,990)</u>	<u>(6,206,660)</u>	<u>(4,300,819)</u>	<u>1,905,841</u>
Net change in fund balance	<u>(33,298)</u>	<u>(956,359)</u>	<u>2,158,786</u>	<u>3,115,145</u>
Fund balance at beginning of year, as restated	<u>5,517,090</u>	<u>5,517,090</u>	<u>7,441,141</u>	<u>1,924,051</u>
Fund balance at end of year	\$ <u>5,483,792</u>	<u>4,560,731</u>	<u>9,599,927</u>	<u>5,039,196</u>

The notes to required supplementary information are an integral part of this schedule.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Mental Health/Mental Retardation

For the year ended December 31, 2003

	Budget		Actual	Variance with
	Original	Amended	Amounts	Amended Budget
Revenues:				
Grants	\$ 20,522,446	20,861,538	20,966,439	104,901
Interest	135,000	135,000	66,834	(68,166)
Contributions and other	139,474	233,967	246,603	12,636
Total revenues	<u>20,796,920</u>	<u>21,230,505</u>	<u>21,279,876</u>	<u>49,371</u>
Expenditures:				
Current:				
Human services	<u>21,258,592</u>	<u>21,853,647</u>	<u>21,727,526</u>	<u>126,121</u>
Total expenditures	<u>21,258,592</u>	<u>21,853,647</u>	<u>21,727,526</u>	<u>126,121</u>
Excess (deficiency) of revenues over expenditures	<u>(461,672)</u>	<u>(623,142)</u>	<u>(447,650)</u>	<u>175,492</u>
Other financing sources (uses):				
Transfers in	461,672	623,142	457,660	(165,482)
Transfers out	<u>—</u>	<u>—</u>	<u>(62,885)</u>	<u>(62,885)</u>
Total other financing sources (uses)	<u>461,672</u>	<u>623,142</u>	<u>394,775</u>	<u>(228,367)</u>
Net change in fund balance	<u>—</u>	<u>—</u>	<u>(52,875)</u>	<u>(52,875)</u>
Fund balance at beginning of year	<u>—</u>	<u>—</u>	<u>52,875</u>	<u>52,875</u>
Fund balance at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

The notes to required supplementary information are an integral part of this schedule.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Children and Youth

For the year ended December 31, 2003

	Budget		Actual Amounts	Variance with Amended Budget
	Original	Amended		
Revenues:				
Grants	\$ 7,160,194	7,516,888	7,749,630	232,742
County charges	309,623	309,623	439,231	129,608
Interest	—	—	49	49
Total revenues	<u>7,469,817</u>	<u>7,826,511</u>	<u>8,188,910</u>	<u>362,399</u>
Expenditures:				
Current:				
Human services	8,845,028	9,265,645	9,558,371	(292,726)
Total expenditures	<u>8,845,028</u>	<u>9,265,645</u>	<u>9,558,371</u>	<u>(292,726)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,375,211)</u>	<u>(1,439,134)</u>	<u>(1,369,461)</u>	<u>69,673</u>
Other financing sources (uses):				
Transfers in	1,375,211	1,569,105	1,481,357	(87,748)
Transfers out	—	(129,973)	(111,896)	18,077
Total other financing sources (uses)	<u>1,375,211</u>	<u>1,439,132</u>	<u>1,369,461</u>	<u>(69,671)</u>
Net change in fund balance	—	(2)	—	2
Fund balance at beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance at end of year	<u>\$ —</u>	<u>(2)</u>	<u>—</u>	<u>2</u>

The notes to required supplementary information are an integral part of this schedule.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
HealthChoices-Cumberland County

For the year ended December 31, 2003

	Budget		Actual	Variance with
	Original	Amended	Amounts	Amended Budget
Revenues:				
Grants	\$ 8,484,000	10,551,090	11,629,837	1,078,747
County charges	—	—	—	—
Interest	1,200	3,135	2,000	(1,135)
Total revenues	<u>8,485,200</u>	<u>10,554,225</u>	<u>11,631,837</u>	<u>1,077,612</u>
Expenditures:				
Current:				
Human services	<u>8,485,200</u>	<u>10,554,225</u>	<u>11,631,837</u>	<u>(1,077,612)</u>
Total expenditures	<u>8,485,200</u>	<u>10,554,225</u>	<u>11,631,837</u>	<u>(1,077,612)</u>
Excess of revenues over expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance at beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

The notes to required supplementary information are an integral part of this schedule.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Required Supplementary Information

(Unaudited)

Employee's Retirement Plan 1998-2003

Retirement Plan Contributions:

<u>Year ended December 31</u>		<u>Annual required contribution</u>	<u>County contribution</u>	<u>Percentage contributed</u>
1998	\$	—	—	—
1999		—	—	—
2000		—	—	—
2001		—	—	—
2002		53,411	53,411	100%
2003		1,192,646	1,192,646	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, 2003
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.

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Required Supplementary Information

December 31, 2003

1. Budgetary Information

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.

With the exception of the general fund and the Industrial Development Authority, a component unit, all funds perform their budgeting according to GAAP.

The legally adopted budget does not include the Cumberland County Industrial Development Authority (which is a component unit) and certain District Attorney Programs. 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 General Fund Schedule 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, 2003, follows:

	General Fund
Total revenues (budget basis)	\$ 41,879,882
Unbudgeted funds revenues:	
Indirect costs	(946,550)
District Attorney programs	143,327
Library taxes	<u>(1,850,758)</u>
Total revenues (GAAP basis)	<u>\$ 39,225,901</u>

A reconciliation of expenditures from a budget basis to a GAAP basis for budgeted and unbudgeted activity for the year ended December 31, 2003, follows:

	General Fund
Total expenditures (budget basis)	\$ 35,420,277
Unbudgeted funds expenditures:	
Indirect costs	(946,550)
District Attorney programs	202,032
Library tax reimbursement	<u>(1,850,758)</u>
Total expenditures (GAAP basis)	<u>\$ 32,825,001</u>

COUNTY OF CUMBERLAND, PENNSYLVANIA

Notes to Required Supplementary Information

December 31, 2003

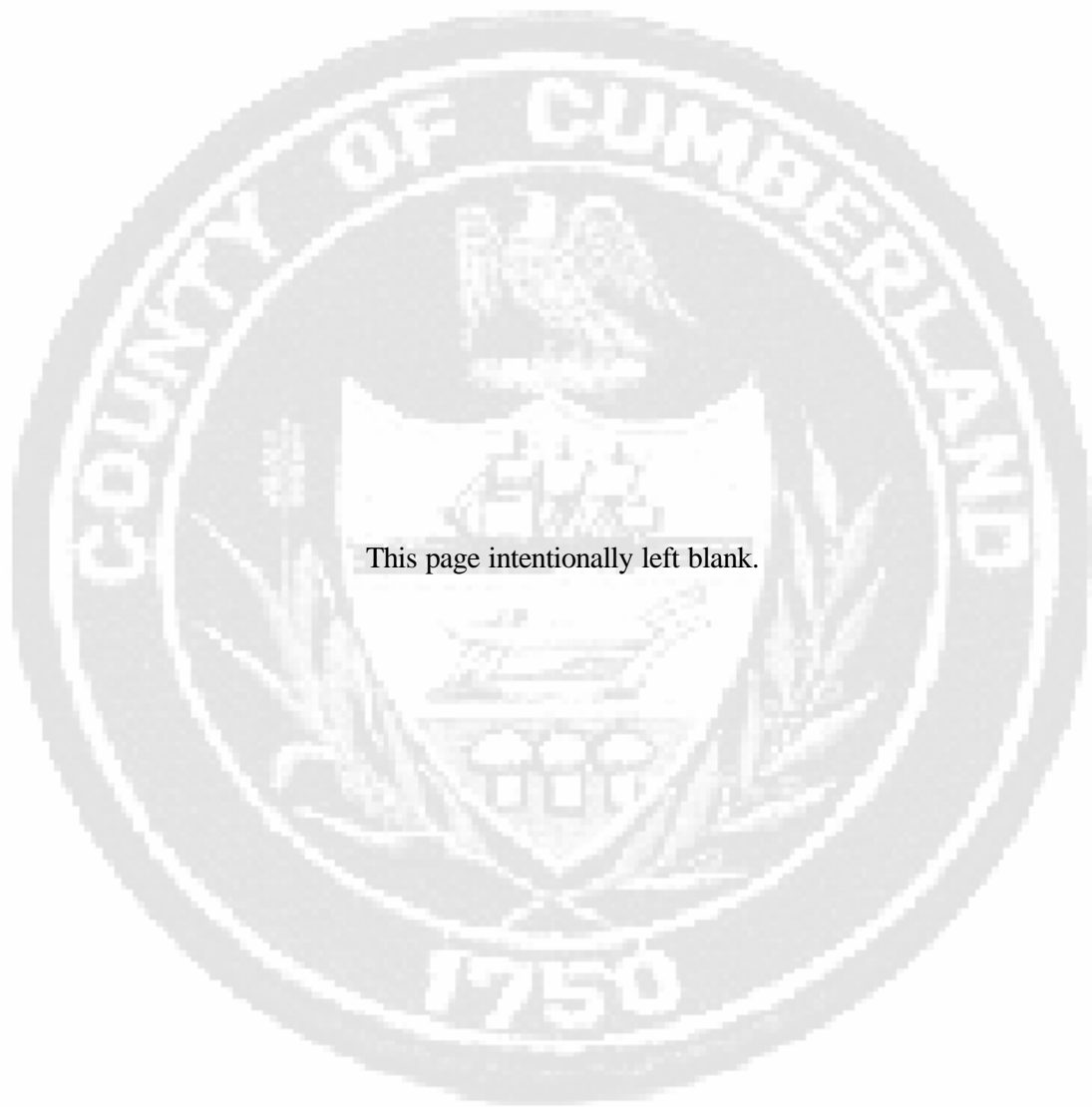
The County of Cumberland follows these procedures in establishing the budget data presented in the budgetary comparison schedules:

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.
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 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, \$497,279 in General Fund supplemental appropriations were enacted. The Schedule 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 8 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.



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