

Controller of Cumberland County

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JAMES D. BOGAR
SOLICITOR

May 31, 2005

TO: THE COMMISSIONERS AND CITIZENS OF CUMBERLAND COUNTY

County Code requires that the elected County Controller annually prepare a financial report and audit of the County's books. The Controller publishes a Comprehensive Annual Financial Report (CAFR) as part of satisfying this requirement. Cumberland County's CAFR is prepared in accordance with U.S. generally accepted accounting principals (GAAP). The CAFR is audited by an independent firm of certified public accountants, in cooperation with the Controller.

The Controller is pleased to include two "government-wide" financial statements in the County's CAFR; the Statement of Net Assets and the Statement of Activities. These financial statements are discussed more fully in Note 1 to the financial statements.

These government-wide financial statements help taxpayers:

- Assess the finances of the County in its entirety, including the year's operating results.
- Determine whether the County's overall financial position improved or deteriorated.
- Evaluate whether the County's current-year revenues were sufficient to pay for current-year services.
- See the County's cost of providing services to its citizenry.
- See how the County finances its programs – through user fees and other program revenues versus general tax revenues.
- Understand the extent to which the County has invested in capital assets, including bridges.
- Make better comparisons between governments.

This report consists of management's representations concerning the finances of Cumberland County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of

internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As the Controller, I assert that, to the best of my knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Ernst & Young LLP in cooperation with the Controller. Ernst & Young LLP is a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the year ended December 31, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the year ended December 31, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE COUNTY

Cumberland County is a fourth class county founded January 27, 1750. It is governed by an elected Board of Commissioners consisting of three members. The County is located in the south central part of the state, between two Appalachian Mountain Ranges. Generally, the County's boundaries follow definite physical features. It is bounded on the North by the Blue Mountain Range, on the East by the west bank of the Susquehanna River, on the South its southeastern boundary follows the Yellow Breeches Creek from the Susquehanna River to Williams Grove with the remainder of its southeastern and southern boundary following Mains Run, Gum Run, Middle Spring Creek and Laughlin Run. There are eleven boroughs and twenty-two townships in the County. Harrisburg, the State Capitol of Pennsylvania, is located in the county adjacent to Cumberland County. The County has a land area of 555 square miles and an estimated 2004 population of 219,892. Twenty-nine percent of the land is in forest and fifty-four percent is in crop and pasture land. It is the 18th most populous county in the state and ranks 40th out of 67 counties in size.

The Pennsylvania Turnpike, a major east-west highway, and Interstate 81, a major north-south highway, intersect in Cumberland County creating one of the major crossroads of the nation. Another major north-south artery is U.S. Route 11. Interstate 83 provides quick access to Baltimore and Washington, D.C. The Route 581 connector to Route 81 provides a beltway around Harrisburg connecting I-81, I-83 and Route 11. This network of highways has caused the County to become a hub for trucking terminals and distribution centers. Bus service is available to County residents through Capital Area Transit System, Capitol Bus

Company and Greyhound. Taxi service is provided by various companies. Train service is available from Amtrak in nearby Harrisburg. Airline service is available from nearby Harrisburg International Airport.

Cumberland County has exciting recreational and educational attractions. For example, the new 66,000 square foot Military History Institute, a part of the National Museum of the U.S. Army, located in Carlisle, was dedicated in September 2004. The County is the site of many charming and historic small towns. The Appalachian Trail and many of the best and most abundant trout streams on the east coast provide ample opportunity for outdoor recreation.

Every part of the County is in close proximity to many cultural, historical and tourist attractions - Harrisburg, the State Capital; Washington, D.C., the Nation's Capital; Gettysburg, the Civil War Battlefield; Inner Harbor in Baltimore, Maryland; and Hershey, with its well-known Hershey Park.

LOCAL ECONOMY

Cumberland County's low 3.2% unemployment rate, one of the lowest in the state, was aided by continued growth in the distribution and retail industries in the County.

New job creation in Cumberland County continues to outpace the rest of the State. Openings of national home improvement chain stores and national retail stores in the Greater Carlisle area mark the area as a retail growth area.

The Murata Business Center, the regional business incubator, continues to attract new tenants.

Business Central, headquarters to the Cumberland Area Economic Development Commission, received its first technology company as a tenant. This is the first stage of the program to attract technology companies to the Downtown Carlisle area.

The Army Heritage and Education Center's new Military History Institute opened in the fall of 2004. The Military History Institute occupies a 66,000 square foot facility located off of exit 49 of I-81. The Institute houses one of the world's largest military history libraries and associated archives, totaling some 11,000,000 items. The Visitors and Education Building, the next phase of this development, is in design.

LONG-TERM PLANNING

The Board of County Commissioners continues its efforts to establish operational and financial priorities for their current term of office (ending in December 2007) and beyond.

The Commissioners are applying sound business practices in their efforts to manage Cumberland County financial operations.

The Commissioners have established strategic planning and performance measurements as a central part of this effort.

The Commissioner's "Vision of the County for Year 2015" is "A place where family-sustaining economic opportunity is promoted, our environment is respected, public safety is ensured, and our quality of life is preserved for the future."

The strategic directions needed to achieve this vision are:

- Utilize open communications with stakeholder groups in addressing key current issues and emerging issues and establish active working partnerships to address those issues.
- Develop and deliver quality services expected by our residents with an eye toward greater customer focus with emphasis on improvements in accessibility, efficiency and effectiveness.
- Pursue Smart Growth that promotes livable communities through a balance of economic development and appropriate comprehensive land use planning.
- Support timely emergency response and assure continuity of government in time of emergency.
- Address Human Services on a compassionate, affordable and sustainable basis.
- Promote a quality-centered culture that supports high performance and commitment to the single customer focus: “Make life better for the people and future of Cumberland County.”

A Performance Measurement Program has been initiated throughout the Cumberland County organization. Each department has identified the core aspects of that department’s operation and developed a measurement for each of these aspects. The measurement identifies the present efficiency level, it identifies a “benchmark” or goal, it sets a timeframe in which to achieve that goal, and then charts progress toward that goal. These measurements are linked to the strategic directions listed above. This will define and distinguish mandatory and discretionary activities, identifying and focusing on essential government services as part of the Commissioners’ efforts to conserve County tax revenues for core services.

The Commissioners continue to explore key budget drivers for the County including the cost of personnel plus related expenses for health insurance and retirement benefits. The County faces significant financial pressures from employee benefits. The Commissioners continue implementing steps to have employees participate in the cost of family health insurance coverage. In 2004 the Commissioners implemented an employee wellness plan. This plan encourages employees to participate in smoking cessation courses, the Weight Watchers program and take other steps to improve their overall health. These steps are essential to the County’s goal of maintaining a high quality health care plan for employees while trying to manage the rapidly increasing county cost for this and other forms of insurance.

The Commissioner’s strategic planning process has identified priorities for capital projects and major service initiatives. Relocation and program improvement efforts that are under review or implementation:

- Cumberland County Central Processing Center has been consolidated, from two separate locations, into the Cumberland County Prison. The Center manages the arrest and detention process for individuals apprehended by state and local police from throughout the county.
- A systematic evaluation and overall study of the 20 year-old County Prison facility is underway. This study will identify options and provide guidance for future expansion and/or renovations for the facility. Moving 911/Emergency Communications from the basement of the County Prison is part of this study.
- Proposals for renovation of the Claremont Nursing and Rehabilitation Center (the County Nursing Home) are under evaluation.

- A Guaranteed Energy Savings Program, as provided in Act 57, has been initiated. Upgrades to the heating and air-conditioning, retro fittings and upgrades to lighting systems and other utility based improvements will guarantee a net energy savings in excess of \$2,500,000 over the next 15 years.

The Commissioners continue to implement a variety of economic development and land use initiatives aimed at preserving farm land and open spaces as critical elements of the County landscape while preserving the economic climate of the County.

EMPLOYEES' RETIREMENT TRUST FUND

The County sponsors a single employer defined benefit pension plan that covers all County employees. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Plan members contribute 5% of their salary. Each year an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the County must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the County fully funds each year's annual required contribution to the pension plan as determined by the actuary.

Additional information on the County's pension plan can be found in Note 13 in the notes to the financial statements.

LANDFILL POST-CLOSURE TRUST FUND

Cumberland County established and manages a site-specific Post-Closure Trust Fund for the operating municipal waste landfill in the County in accordance with the Municipal Waste Planning, Recycling and Waste Reduction Act, Act 101 of 1988, Section 1108. This Post-Closure Trust Fund may be used only for remedial measures and emergency actions that are necessary to prevent or abate adverse effects upon the environment after landfill closure. The Funds may also be used for purposes authorized by the Environmental Stewardship and Watershed Protection Act (Act 68 of 1999). The fund had \$673,899 in fund balance at December 31, 2004.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Cumberland for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2003. This was the sixteenth consecutive year that County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR. This report satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the staff of the Finance Office and all department fiscal officers. We would like to express our appreciation to each of the Controller's Office staff who assisted and contributed to the preparation of this report. Credit must also be given to the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the County of Cumberland's finances.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Alfred L. Whitcomb".

Alfred L. Whitcomb
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Cumberland,
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

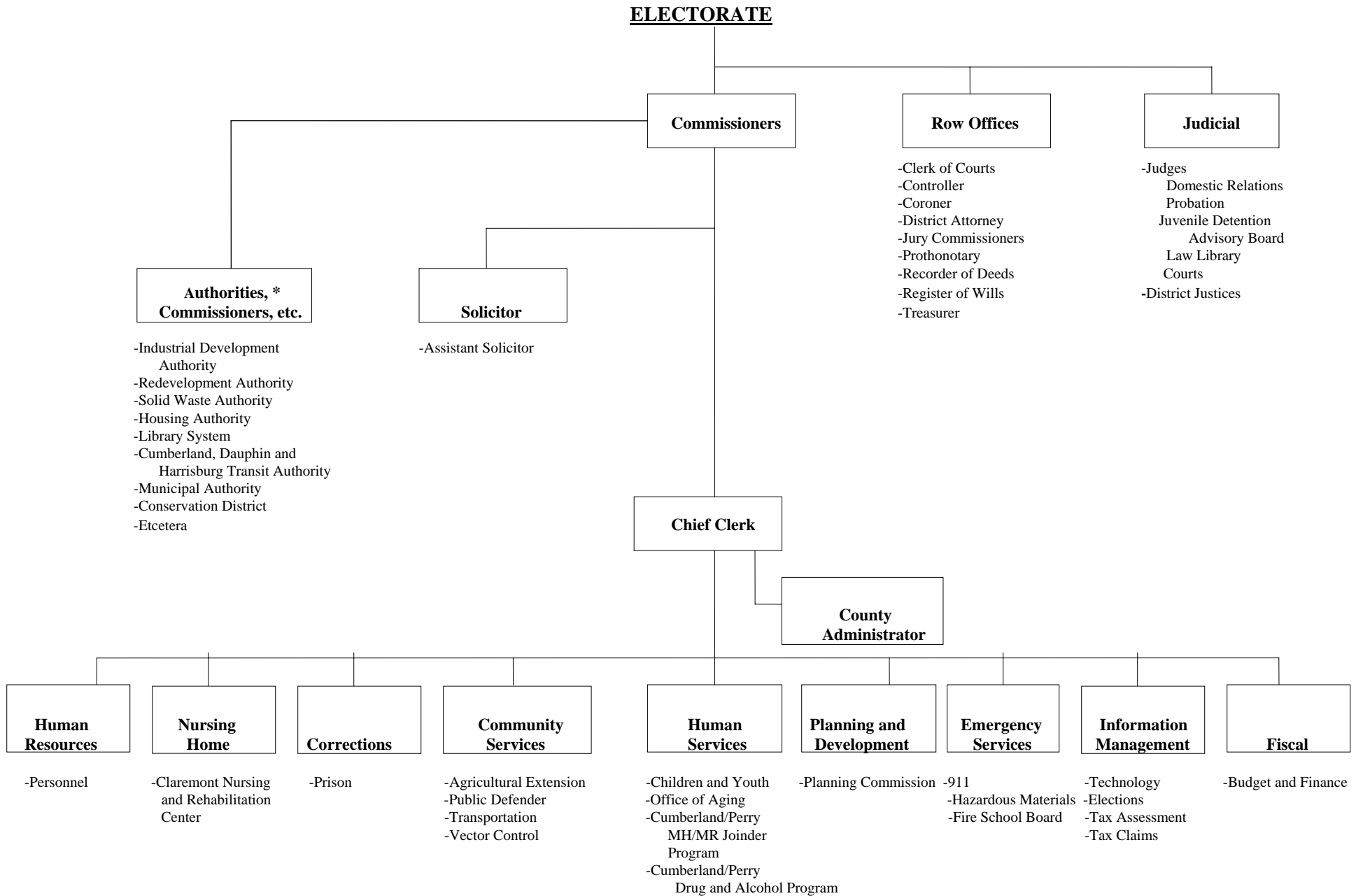
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

COUNTY OF CUMBERLAND, PENNSYLVANIA ORGANIZATIONAL CHART



* The Board of directors for the authorities, commissions, etc., are appointed by the Cumberland County Board of Commissioners. See the reporting entity disclosures in Footnote 1 for information on these and similar organizations.

COUNTY OF CUMBERLAND
LIST OF ELECTED OFFICIALS
DECEMBER 31, 2004

COMMISSIONERS

Bruce Barclay, Chairperson
Gary Eichelberger
Richard L. Rovegno

PROTHONOTARY

Curtis R. Long

CLERK OF COURT

Dennis E. Lebo

JUDGES OF COURT

Honorable George E. Hoffer, President Judge
Honorable Edgar B. Bayley
Honorable Kevin A. Hess
Honorable J. Wesley Oler
Honorable Edward E. Guido

TREASURER

John C. Gross, II

SHERIFF

R. Thomas Kline

CONTROLLER

Alfred L. Whitcomb

REGISTER OF WILLS

Glenda Farner-Strasbaugh

CORONER

Michael L. Norris

RECORDER OF DEEDS

Robert P. Ziegler

JURY COMMISSIONERS

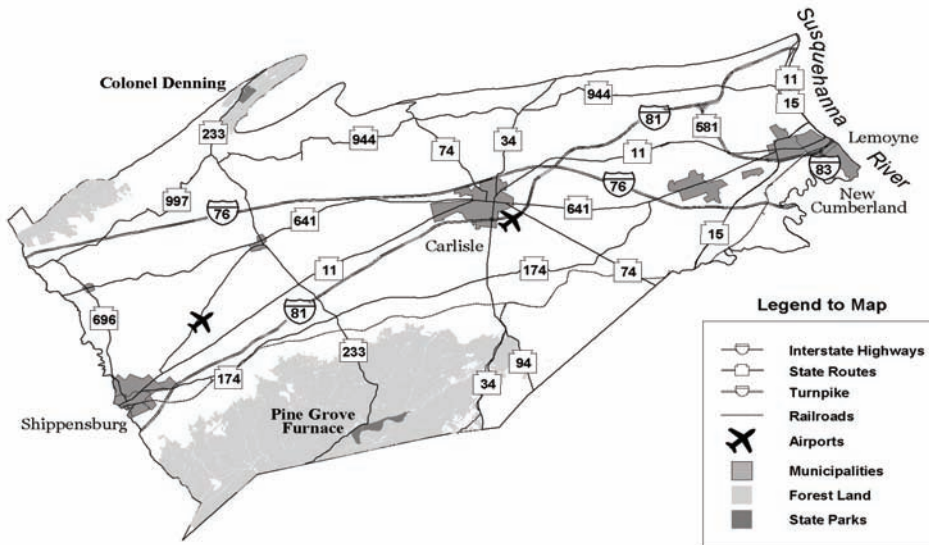
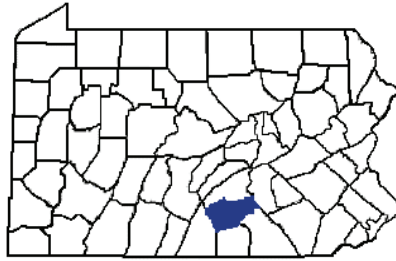
Ralph G. Viehman, Jr.

DISTRICT ATTORNEY

Merle L. Ebert, Jr.

COUNTY OF CUMBERLAND, PENNSYLVANIA

MAP



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|----------------------|--------------------|
| 1. Newburg | 7. Shiremanstown |
| 2. Shippensburg Twp. | 8. Camp Hill |
| 3. Newville | 9. Wormleysburg |
| 4. Carlisle | 10. Lemoyne |
| 5. Mt. Holly Springs | 11. New Cumberland |
| 6. Mechanicsburg | |

