

## 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, 2004, 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.

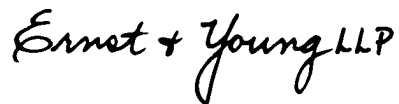
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and Schedule of Employer's Contributions on pages 13 through 27 and 78 through 86 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's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



May 20, 2005

## 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, 2004. 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 6 of this report.

#### Financial Highlights

- The assets of Cumberland County exceeded its liabilities at the close of the most recent fiscal year by \$54,012,222 (*net assets*). Of this amount, \$22,951,869 (*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 \$5,029,122.
- As of the close of the current calendar year, Cumberland County's governmental funds reported combined ending fund balances of \$22,262,237, an increase of \$5,786,248 in comparison to the prior year. Approximately 83 percent of the total amount (\$18,484,497) 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 \$12,062,306. Of this balance approximately \$1,943,000 is designated for capital projects, farmland preservation, prison canteen, and future debt service payments.
- Cumberland County's total debt increased by \$1,710,933. The major changes in debt were: the purchase of a 2004 general obligation bond which refinanced the 1999 GOB and included funding for new projects for open space, farmland preservation, and the payroll portion of the Enterprise Resource Program (ERP) \$4,072,109 (increase); the 2001 note for the Interstate 81 Exit 44 study was fully paid \$900,000 (decrease); and scheduled principal payments of \$1,297,043 (decrease).
- Cumberland County successfully implemented a new Enterprise Resource Program (ERP) that fully integrates the County's financial information.

#### 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* on pages 33 and 35 of this report.

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

The basic governmental fund financial statements can be found on pages 32 and 34 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 services principally benefit business-type functions, they have been included within *business-type activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 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 76 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 78 thru 86 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 \$54,012,222 at the close of the most recent calendar year.

**Cumberland County's Net Assets**

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets:</b>						
Current assets	\$32,660,874	25,971,796	9,357,230	8,840,257	42,018,104	34,812,053
Capital assets	40,729,144	38,892,681	22,813,152	24,639,751	63,542,296	63,532,432
Other assets	473,380	137,586	-	394,184	473,380	531,770
<b>Total assets</b>	<b>73,863,398</b>	<b>65,002,063</b>	<b>32,170,382</b>	<b>33,874,192</b>	<b>106,033,780</b>	<b>98,876,255</b>
<b>Liabilities:</b>						
Long-term liabilities outstanding	15,505,658	13,316,374	26,441,464	27,136,824	41,947,122	40,453,198
Other liabilities	8,743,527	7,524,359	1,330,909	1,915,598	10,074,436	9,439,957
<b>Total liabilities</b>	<b>24,249,185</b>	<b>20,840,733</b>	<b>27,772,373</b>	<b>29,052,422</b>	<b>52,021,558</b>	<b>49,893,155</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	29,749,495	32,283,858	1,310,858	3,199,579	31,060,353	35,483,437
Unrestricted	19,864,718	11,877,472	3,087,151	1,622,191	22,951,869	13,499,663
<b>Total net assets</b>	<b>\$49,614,213</b>	<b>44,161,330</b>	<b>4,398,009</b>	<b>4,821,770</b>	<b>54,012,222</b>	<b>48,983,100</b>

The largest portion of Cumberland County's net assets (58 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* (\$22,951,869) 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 fiscal year, Cumberland County is able to report positive fund balances in all three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities, with the exception of Emergency Telephone. As part of the 800 MHz project, Emergency Telephone is purchasing radio equipment for different Cumberland County municipalities and County departments. Therefore, the assets purchased with the bond proceeds are not on the balance sheet of Emergency Telephone, offsetting the liability and causing a negative fund balance. The same held true for the prior fiscal year.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Management's Discussion and Analysis

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

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 10,623,157	10,367,441	24,897,305	21,917,955	35,520,462	32,285,396
Operating grants and contributions	63,123,923	56,186,576	670,155	1,451,523	63,794,078	57,638,099
Capital grants and contributions	1,854,364	282,571	2,471	510,821	1,856,835	793,392
General revenues:						
Property taxes	28,798,851	27,012,527	-	-	28,798,851	27,012,527
Other taxes	1,519,027	1,490,313	-	-	1,519,027	1,490,313
Grants and contribution restricted to specific programs	-	10,609	-	4,933	-	15,542
Unrestricted investment earnings	481,053	213,170	67,680	55,492	548,733	268,662
Total revenues	106,400,375	95,563,207	25,637,611	23,940,724	132,037,986	119,503,931
<b>Expenses:</b>						
General government	22,570,583	22,376,100	-	-	22,570,583	22,376,100
Public safety	13,630,646	13,287,128	-	-	13,630,646	13,287,128
Roads and bridge maintenance	651,093	861,335	-	-	651,093	861,335
Solid waste management	561,480	541,293	-	-	561,480	541,293
Human services	59,475,773	51,749,041	-	-	59,475,773	51,749,041
Culture and recreation	90,075	535,145	-	-	90,075	535,145
Conservation	381,570	541,665	-	-	381,570	541,665
Community redevelopment and housing	387,356	400,693	-	-	387,356	400,693
Economic development and assistance	2,244,217	913,960	-	-	2,244,217	913,960
Interest on long-term debt	482,719	354,504	-	-	482,719	354,504
Indirect expenses	(334,128)	(309,825)	334,128	309,825	-	-
Claremont Nursing and Rehabilitation Center	-	-	19,494,048	18,386,131	19,494,048	18,386,131
Cumberland Early Learning Center	-	-	359,885	294,183	359,885	294,183
Emergency telephone	-	-	4,221,403	4,275,821	4,221,403	4,275,821
Hazardous materials protection	-	-	135,713	112,576	135,713	112,576
Transportation services	-	-	1,647,303	1,530,755	1,647,303	1,530,755
Workers' Compensation	-	-	675,000	945,643	675,000	945,643
Total expenses	100,141,384	91,251,039	26,867,480	25,854,934	127,008,864	117,105,973
Increase (decrease) in net assets before transfers	6,258,991	4,312,168	(1,229,869)	(1,914,210)	5,029,122	2,397,958
Transfers	(806,108)	(594,338)	806,108	594,338	-	-
Increase (decrease) in net assets	5,452,883	3,717,830	(423,761)	(1,319,872)	5,029,122	2,397,958
<b>Net assets, beginning</b>	44,161,330	40,443,500	4,821,770	6,141,642	48,983,100	46,585,142
<b>Net assets, ending</b>	\$ 49,614,213	44,161,330	4,398,009	4,821,770	54,012,222	48,983,100

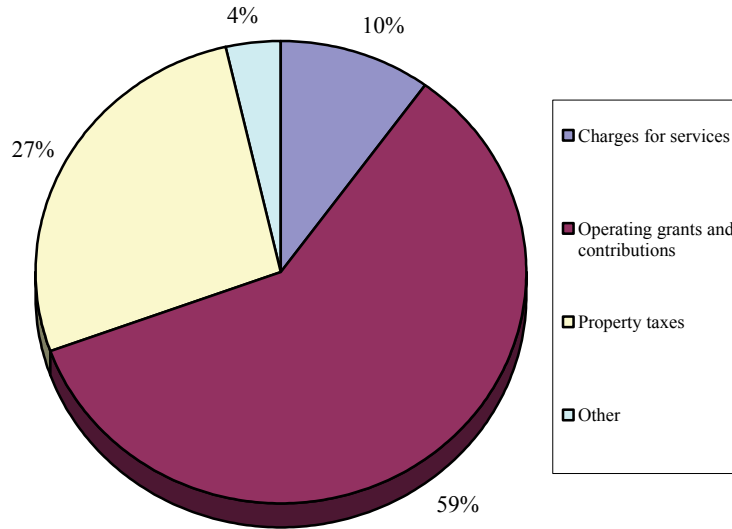


**COUNTY OF CUMBERLAND, PENNSYLVANIA**

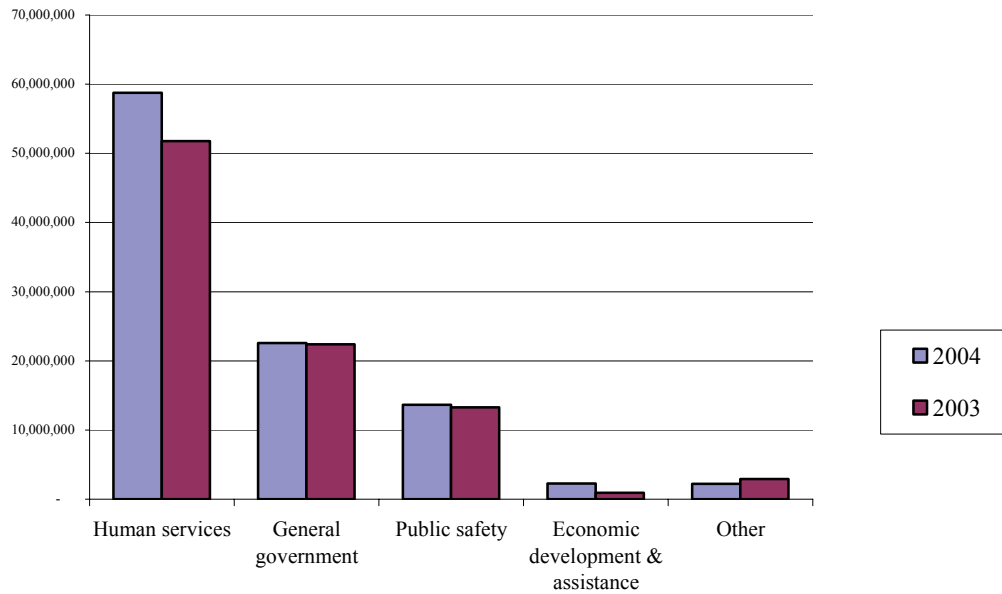
Management’s Discussion and Analysis

**Governmental activities.** The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2004:

**Revenues by Source - Governmental Activities**



**Expense Comparison by Activity - Governmental Activities**



## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

Governmental activities increased Cumberland County's net assets by \$5,452,883. Key elements of this increase are as follows:

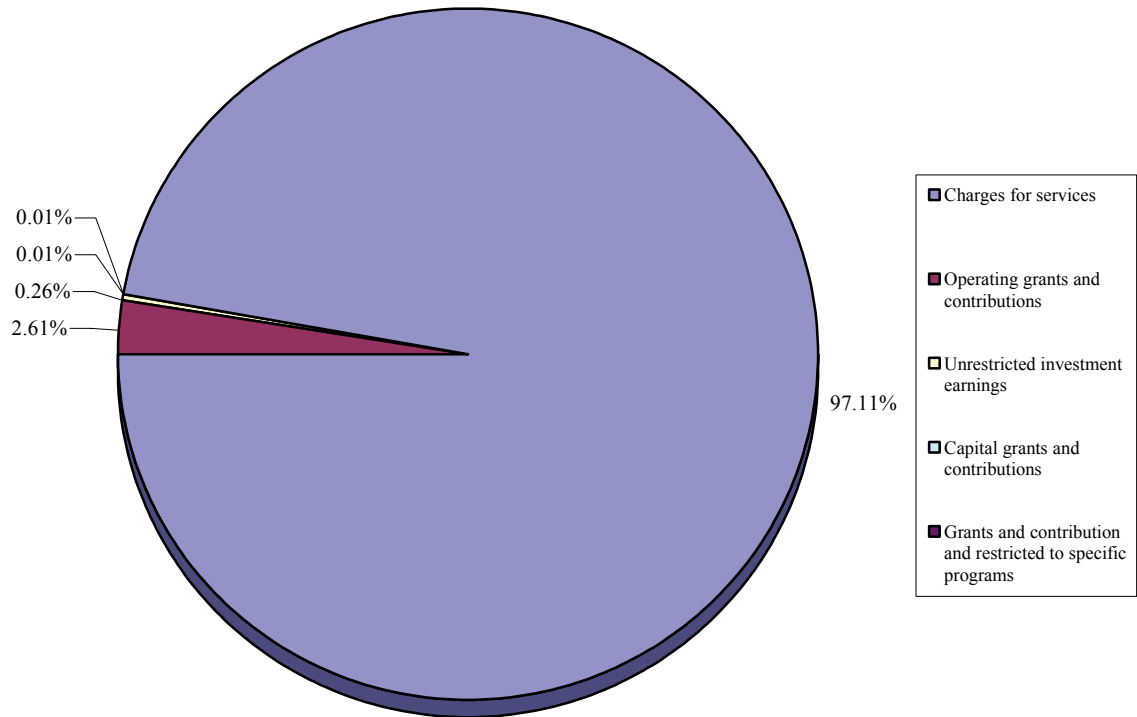
- Property tax increased by \$1,786,324 (6.6 percent). This growth is due to a 5 percent millage increase, new construction, and renovations of existing property.
- Operating grants and contributions increased \$6,937,347 due mainly to four major grants:
  - Mental Retardation waiver funding increased \$4,751,056 to place and service consumers that were on the State's emergency list.
  - Domestic Relations received 5 quarters of incentive revenues and the fiscal 2001-2002 bonus, which accounted for an increase of \$411,695.
  - Juvenile Probation received a new Title IV-E grant of \$390,000.
  - The County received a BRAC grant of \$250,000 for architectural and engineering services for the Visitor and Education Building at the Army Heritage Museum.
- Capital grants increased \$1,571,793 due to an increase in the farmland preservation capital grant. This grant fluctuates based on the number and cost of agricultural easements purchased in a year.
- Human services expenses increased \$7,726,732. The main cause of this increase is:
  - Increased expenses which allowed for the recognition of additional waiver funding in Mental Retardation of \$4,751,056.
  - Health Choices member days increased by 449,729 which caused an expense increase of \$1,591,540.
  - The remainder of the increase is due to the reinstatement of funding by the State for Special Grants and Drug and Alcohol.
- Economic Development expenses increased \$1,330,257. The majority of this increase is due to the reclassification of the Grant-Urban Redevelopment department. In 2003 most of the Grant-Urban Redevelopment department was classified between Culture and Recreation, Conservation, and Community Redevelopment. The Economic Development Office expenses also increased by \$225,000.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Management's Discussion and Analysis

**Business-type activities.** The following charts graphically depict the sources of revenue and functional expenses of business-type activities for the fiscal year ended December 31, 2004:

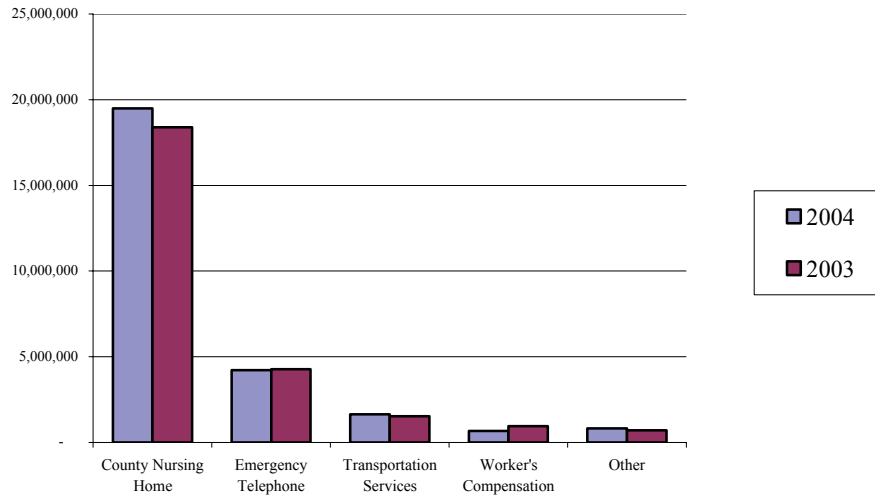
**Revenues by Source - Business-type Activities**



## 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 \$423,761. Key elements of the decrease are as follows.

- Charges for services increased \$2,979,350. Claremont Nursing and Rehabilitation Center's charges for services increased \$2,406,215. The majority of the increase is due to rate increases of \$1,273,442 and an increase in Medicare B therapy of \$607,775.
- Operating grants and revenues have decreased by \$781,368 due to an account classification change.
- Capital grants have declined by \$508,350.
  - Transportation's capital grants decreased by \$286,000 due to the timing of the purchase of buses.
  - Emergency Telephone's grants decreased by \$221,898 because the CAD project was completed in 2003.

#### 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 \$22,262,237, and an increase of \$5,786,248 in comparison to the prior year. Approximately 83 percent of the total amount (\$18,484,497) constitutes *unreserved fund balance*, which is available for

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to:

- Open space/farmland preservation (\$3,033,386)
- Offender supervision (\$385,933)
- Automation (\$104,945)
- Hotel tax (\$103,785)
- Prepaid items (\$44,532)
- Criminal investigation (\$105,159)

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 \$12,062,306 while total fund balance was \$15,840,046. 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 35 percent of total general fund expenditures, while total fund balance represents 46 percent of general fund expenditures.

The fund balance of Cumberland County's general fund increased by \$6,176,385 during the current year. Key factors in this growth are as follows:

- Proceeds from the 2004 general obligation bond that will fund open space and farmland preservation (\$3,033,386).
- A number of positive events including:
  - The County was able to achieve savings through improved line item management with new software system.
  - A number of contingencies that were built into the budget did not come to fruition.
  - Low interest rates on the variable rate bonds (\$230,000).
  - New grant to cover eligible operating expenses of the Juvenile Probation Department (\$390,000).
  - Domestic Relations incentives (\$228,000).
  - Claremont Nursing and Rehabilitation repaid a prior year subsidy (\$365,119).

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

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

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

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

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

The funds and classifications in the CAFR 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 budgeted revenues increased \$3,252,632. The following is a list of the adjustments:

Farmland Preservation	\$1,736,816
BRAC	\$ 364,000
Economic Development	\$ 230,556
ERP Direct Billing Revenue	\$ 295,523
Prison Canteen	\$ 199,500
Grants	\$ 208,072
Miscellaneous	\$ 218,165

The actual revenues received were \$314,796 over budget most of which is attributable to charges and services (\$279,500). The Recorder of Deeds office received more revenues than budgeted because mortgage interest rates remained lower than anticipated. The Prison received more income due to housing more inmates for other municipalities and work release room and board.

The General Fund budgeted expenditures (including other financing sources/uses) increased \$209,193 for various miscellaneous adjustments mostly related to new grants and the proceeds from the issuance of long term bonds.

Actual General Fund expenditures were under the final budget by \$2,510,115. The major items under budget were:

Professional Services	\$472,388
Payments to Agencies	\$489,943
Agricultural Easements	\$323,851
Salary and Benefits	\$247,472
Office Supplies	\$197,228

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Management’s Discussion and Analysis

Other financing sources (uses) were under budget by \$948,518. 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 (\$98,611). Subsidies that were under budget were Emergency Telephone (\$229,338), Hazmat (\$73,547), Children and Youth (\$488,925), and Domestic Relations (\$227,695). The cause of the decreased subsidies were low interest rates on variable rate bonds (Emergency Telephone), Hazmat vehicle was not purchased before year end (Hazmat), and increased revenues (Domestic Relations and Children and Youth).

**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, 2004, amounted to \$63,542,296 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements other than buildings, machinery and equipment, bridges, construction in progress and agricultural easements. The total increase in Cumberland County’s investment in capital assets for the current year was .02% percent (a 4.7% increase for governmental activities and a 7.4% decrease for business-type activities).

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

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,673,028	1,673,028	-	-	1,673,028	1,673,028
Buildings and systems	12,175,755	12,947,542	16,652,421	17,535,249	28,828,176	30,482,791
Improvements other than buildings	4,249	6,978	359,279	386,513	363,528	393,491
Machinery and equipment	4,411,168	3,091,124	5,705,643	6,717,989	10,116,811	9,809,113
Bridges	1,526,090	1,653,049	-	-	1,526,090	1,653,049
Construction in progress	1,307,569	1,615,868	95,809	-	1,403,378	1,615,868
Agricultural easements	19,631,285	17,905,092	-	-	19,631,285	17,905,092
Total	\$40,729,144	38,892,681	22,813,152	24,639,751	63,542,296	63,532,432

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

- The County purchased four agricultural easements for a total of \$1,726,193.
- The development of the County’s Enterprise Resource Planning (ERP) software for a full calendar year required \$894,670 in resources.
- Computer hardware of \$359,498 was purchased to supplement the County’s technological needs.
- The ongoing process of replacement of a County owned bridge required \$297,659 in combined County and State resources.

Additional information on Cumberland County’s capital assets can be found in Note 6 of this report.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

**Debt Administration.** At the end of the current fiscal year, Cumberland County had total outstanding bond debt of \$36,445,000. The County's general obligation notes total \$715,000. 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.

The County's gross outstanding general obligation bonds and notes at December 31, 2004 and 2003 were:

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 12,061,985	8,872,954	24,383,015	24,762,046	36,445,000	33,635,000
General Obligation Notes	715,000	1,615,000	-	-	715,000	1,615,000
<b>Total</b>	<b>\$ 12,776,984</b>	<b>10,487,954</b>	<b>24,383,016</b>	<b>24,762,046</b>	<b>37,160,000</b>	<b>35,250,000</b>

In 2004, Cumberland County's bonded debt increased by \$2,810,000. The majority of the increases can be explained by the following activity. Cumberland County issued a \$7,930,000 general obligation bond. Of this amount, \$4,000,000 is for new projects including open space and farmland preservation. The remaining \$3,930,000 refinanced the 1999 general obligation bond. The refinancing reduced the debt service payments by \$80,593 and resulted in an economic gain of \$70,546. Principal payments offset the increase by \$1,265,000.

Cumberland County's general obligation notes decreased by \$900,000 due to the final principal payment of the 2001 note (Exit 44).

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

The current debt limitation for Cumberland County is \$ 308,051,793, which is significantly in excess of Cumberland County's outstanding general obligation debt.

In 2005, Cumberland County plans to issue a \$15,650,000 general obligation bond to refinance the 2000 variable rate bond and refund the final payment of the 2001 variable rate bond to take advantage of low fixed interest rates while still maintaining a small portion of variable rate bonds. The bond will also include approximately \$2 million dollars to fund the County's energy conservation program.

Additional information on Cumberland County's long-term debt can be found in Note 9 on pages 68 to 70 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 2004. The trend will continue through 2005 based on current projections. As of April 2005 the Cumberland County unemployment rate was 2.6% while the statewide rate was 5.5%. Although Cumberland County has the lowest rate, neighboring counties also have unemployment rates significantly below the statewide average.



## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Management's Discussion and Analysis

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 \$32,854 which compares to a national estimate of \$30,906. County residents also benefit from an array of employment opportunities based in the private sector as well as local, state, and federal governments.

Cumberland County has broadened its efforts to integrate private sector leadership with economic development policy. In early 2005 the County Commissioners finalized a transition process in which economic development services were moved into a new, independent economic development corporation serving the county and the region. This move allows the County to respond more quickly to shifts in the economic environment and pursue new opportunities with the assistance of the private sector through innovative partnerships. The County expects the regional economy to remain on course for slow, but steady, growth within the constraints of support for key industries that are critical to the area including agriculture, manufacturing, logistics, defense, and public service.

Highlights of the County's initiatives in the 2005 budget include:

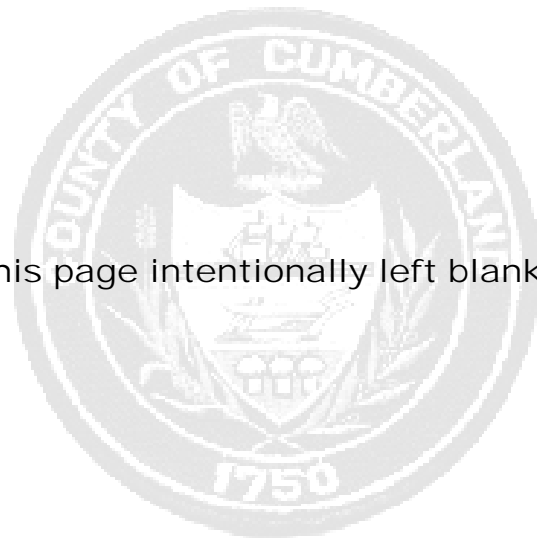
- Establish new District Justice Courts in North Middleton and East Pennsboro Townships.
- Improve and consolidate operations of Central Processing for criminal offenders.
- Plan renovation process for the County Prison.
- Plan Phase 2 renovations at Claremont Nursing and Rehabilitation Center.
- Continue performance management process.

The General Fund ended 2004 with an unreserved/undesignated fund balance of \$10.1 million. At the end of 2005 the County is estimating an unreserved/undesignated fund balance of about \$8 million.

### **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, 2004

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,169,270	5,667,029	20,836,299	339,782	91,484
Investments	2,465,411	-	2,465,411	-	75,416
Receivables (net of allowance):					
Taxes	1,353,743	-	1,353,743	-	-
Due from other governments	5,854,906	2,002,852	7,857,758	140,512	-
Accounts receivable	1,033,566	16,238	1,049,804	-	-
Court cost and fines receivable	1,287,554	-	1,287,554	-	-
Note receivable	-	-	-	-	287,945
Due from component units	71,477	-	71,477	-	-
Internal balances	1,427,659	(1,427,659)	-	-	-
Prepaid	55,172	41,638	96,810	988	-
Restricted assets:					
Cash and cash equivalents	-	145,412	145,412	-	-
Investments	3,942,116	2,911,720	6,853,836	-	-
Capital assets (net of accumulated depreciation):					
Land	1,673,028	-	1,673,028	-	-
Buildings and systems	12,175,755	16,652,421	28,828,176	-	-
Improvements other than buildings	4,249	359,279	363,528	-	-
Machinery and equipment	4,411,168	5,705,643	10,116,811	42,451	-
Bridges	1,526,090	-	1,526,090	-	-
Construction in progress	1,307,569	95,809	1,403,378	-	-
Agricultural easements	19,631,285	-	19,631,285	-	-
Other assets	473,380	-	473,380	-	-
Total assets	<u>73,863,398</u>	<u>32,170,382</u>	<u>106,033,780</u>	<u>523,733</u>	<u>454,845</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	5,938,695	641,301	6,579,996	69,501	-
Accrued payroll	1,023,447	259,839	1,283,286	5,802	-
Due to primary government	-	-	-	71,477	-
Due to other governments	445,408	-	445,408	-	-
Accrued interest payable	68,343	22,101	90,444	-	-
Unearned revenues	706,943	100,446	807,389	76,124	-
Funds held as fiduciary	560,691	307,222	867,913	-	-
Noncurrent liabilities:					
Due in less than one year:					
Bond arbitrage payable	-	222,139	222,139	-	-
Capital lease payable	5,262	10,860	16,122	-	-
General obligation bonds payable	1,075,983	414,017	1,490,000	-	-
Sick and vacation accrual	146,573	58,328	204,901	3,137	-
Workers' compensation claims payable	-	575,633	575,633	-	-
Due in more than one year:					
Bond arbitrage payable	-	69,633	69,633	-	-
Capital lease payable	7,485	20,139	27,624	-	-
General obligation bonds payable	10,768,993	23,470,102	34,239,095	-	-
General obligation notes payable	715,000	-	715,000	-	-
Sick and vacation accrual	2,786,362	800,838	3,587,200	41,167	-
Workers' compensation claims payable	-	799,775	799,775	-	-
Total liabilities	<u>24,249,185</u>	<u>27,772,373</u>	<u>52,021,558</u>	<u>267,208</u>	<u>-</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	29,749,495	1,310,858	31,060,353	42,451	-
Unrestricted	19,864,718	3,087,151	22,951,869	214,074	454,845
Total net assets	<u>\$ 49,614,213</u>	<u>4,398,009</u>	<u>54,012,222</u>	<u>256,525</u>	<u>454,845</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, 2004

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
<b>Primary government:</b>										
Governmental activities:										
General government	\$ 22,570,583	(885,165)	6,126,041	2,932,977	64,728	(12,561,672)	-	(12,561,672)	-	-
Public safety	13,630,646	-	2,242,796	1,879,190	9,263	(9,499,397)	-	(9,499,397)	-	-
Roads and bridge maintenance	651,093	10,141	8,580	746,501	54,180	148,027	-	148,027	-	-
Solid waste management	561,480	23,874	667,116	99,131	-	180,893	-	180,893	-	-
Human services:										
Mental Health/Mental Retardation	26,475,793	174,348	66,474	25,981,948	-	(601,719)	-	(601,719)	-	-
HealthChoices	13,223,377	-	-	13,220,841	-	(2,536)	-	(2,536)	-	-
Children and Youth	9,259,081	167,608	466,207	7,648,535	-	(1,311,947)	-	(1,311,947)	-	-
Food and Shelter	3,408,828	-	211,598	3,132,715	-	(64,515)	-	(64,515)	-	-
Office of Aging	3,068,634	99,340	226,536	2,874,807	-	(66,631)	-	(66,631)	-	-
Other	4,040,060	75,726	236,726	3,609,467	-	(269,593)	-	(269,593)	-	-
Culture and recreation	90,075	-	11,935	-	-	(78,140)	-	(78,140)	-	-
Conservation	381,570	-	33,595	46,439	1,726,193	1,424,657	-	1,424,657	-	-
Community redevelopment and housing	387,356	-	320,335	-	-	(67,021)	-	(67,021)	-	-
Economic development and assistance	2,244,217	-	5,218	951,372	-	(1,287,627)	-	(1,287,627)	-	-
Interest on long-term debt	482,719	-	-	-	-	(482,719)	-	(482,719)	-	-
<b>Total governmental activities</b>	<b>100,475,512</b>	<b>(334,128)</b>	<b>10,623,157</b>	<b>63,123,923</b>	<b>1,854,364</b>	<b>(24,539,940)</b>	<b>-</b>	<b>(24,539,940)</b>	<b>-</b>	<b>-</b>
Business-type activities:										
County Nursing Home	19,494,048	229,390	20,934,388	4,086	-	-	1,215,036	1,215,036	-	-
Early Learning Center	359,885	-	279,112	6,312	-	-	(74,461)	(74,461)	-	-
Emergency Telephone	4,221,403	-	2,098,908	-	-	-	(2,122,495)	(2,122,495)	-	-
Hazardous Materials Protection	135,713	-	43,733	18,705	-	-	(73,275)	(73,275)	-	-
Transportation Services	1,647,303	104,738	866,164	641,052	2,471	-	(242,354)	(242,354)	-	-
Workers' Compensation	675,000	-	675,000	-	-	-	-	-	-	-
<b>Total business-type activities</b>	<b>26,533,352</b>	<b>334,128</b>	<b>24,897,305</b>	<b>670,155</b>	<b>2,471</b>	<b>-</b>	<b>(1,297,549)</b>	<b>(1,297,549)</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 127,008,864</b>	<b>-</b>	<b>35,520,462</b>	<b>63,794,078</b>	<b>1,856,835</b>	<b>(24,539,940)</b>	<b>(1,297,549)</b>	<b>(25,837,489)</b>	<b>-</b>	<b>-</b>
<b>Component units:</b>										
Conservation District	\$ 705,055	-	214,708	497,430	-	-	-	-	7,083	-
Industrial Development Authority	45,401	-	8,976	1,317	-	-	-	-	-	(35,108)
<b>Total component units</b>	<b>\$ 750,456</b>	<b>-</b>	<b>223,684</b>	<b>498,747</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,083</b>	<b>(35,108)</b>
General revenues:										
Real estate taxes						28,798,851	-	28,798,851	-	-
Per capita taxes						674,458	-	674,458	-	-
Hotel taxes						844,569	-	844,569	-	-
Grants and contributions not restricted to specific programs						-	-	-	3,675	-
Unrestricted investment earnings						481,053	67,680	548,733	-	2,996
Transfers						(806,108)	806,108	-	-	-
Total general revenues and transfers						29,992,823	873,788	30,866,611	3,675	2,996
Change in net assets						5,452,883	(423,761)	5,029,122	10,758	(32,112)
Net assets-beginning						44,161,330	4,821,770	48,983,100	245,767	486,957
Net assets-ending						\$ 49,614,213	4,398,009	54,012,222	256,525	454,845

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Balance Sheet  
Governmental Funds  
December 31, 2004

	<b>General Fund</b>	<b>Mental Health/ Mental Retardation</b>	<b>Children and Youth</b>	<b>HealthChoices- Cumberland County</b>	<b>Other non-major funds</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 10,784,593	1,575,715	300	28,169	2,780,493	15,169,270
Investments	249,592	—	—	—	2,215,819	2,465,411
Receivables (net of allowance):						
Taxes	1,315,943	—	—	—	37,800	1,353,743
Due from other governments	643,663	799,731	2,859,972	—	1,551,540	5,854,906
Accounts receivable	512,973	198,983	—	—	296,919	1,008,875
Accrued interest receivable	24,691	—	—	—	—	24,691
Due from other funds	3,005,833	579,090	—	—	1,291,692	4,876,615
Due from component unit	71,477	—	—	—	—	71,477
Prepaid items	44,532	3,115	—	—	7,525	55,172
Restricted investments	3,094,207	—	—	—	847,909	3,942,116
Other assets	424,594	—	—	—	48,786	473,380
Total assets	\$ <u>20,172,098</u>	<u>3,156,634</u>	<u>2,860,272</u>	<u>28,169</u>	<u>9,078,483</u>	<u>35,295,656</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable	\$ 1,455,515	2,992,940	718,930	11,530	758,625	5,937,540
Accrued liabilities and withholdings	865,203	29,579	40,423	—	88,242	1,023,447
Due to other funds	—	—	2,031,208	5,321	1,385,844	3,422,373
Due to other governments	445,408	—	—	—	—	445,408
Deferred taxes	935,862	—	—	—	—	935,862
Deferred revenue	73,418	134,115	69,711	11,318	418,381	706,943
Other liabilities	1,155	—	—	—	—	1,155
Funds held as fiduciary	555,491	—	—	—	5,200	560,691
Total liabilities	<u>4,332,052</u>	<u>3,156,634</u>	<u>2,860,272</u>	<u>28,169</u>	<u>2,656,292</u>	<u>13,033,419</u>
Fund balances:						
Reserved for:						
Prepaid items	44,532	—	—	—	—	44,532
Clerk of courts automation	21,405	—	—	—	—	21,405
Prothonotary automation	28,190	—	—	—	—	28,190
Register of wills automation	55,350	—	—	—	—	55,350
Hotel tax	103,785	—	—	—	—	103,785
Open space/farmland preservation	3,033,386	—	—	—	—	3,033,386
Offenders' supervision	385,933	—	—	—	—	385,933
Criminal investigation	105,159	—	—	—	—	105,159
Unreserved:						
Designated:						
Future capital projects	1,225,000	—	—	—	—	1,225,000
Future debt service arbitrage payments	225,000	—	—	—	—	225,000
Prison canteen	114,684	—	—	—	—	114,684
Farmland preservation	378,060	—	—	—	—	378,060
Undesignated, reported in:						
General fund	10,119,562	—	—	—	—	10,119,562
Special revenue funds	—	—	—	—	5,861,350	5,861,350
Capital project funds	—	—	—	—	560,210	560,210
Debt service fund	—	—	—	—	631	631
Total fund balances	<u>15,840,046</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,422,191</u>	<u>22,262,237</u>
Total liabilities and fund balances	\$ <u>20,172,098</u>	<u>3,156,634</u>	<u>2,860,272</u>	<u>28,169</u>	<u>9,078,483</u>	<u>35,295,656</u>

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, 2004

Total fund balances-governmental funds	\$	22,262,237
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.		40,729,144
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		2,223,416
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.		217,009
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 fund are included in governmental activities in the statement of net assets.		(26,584)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(15,722,667)
Interest accrued on long-term liabilities is not due and payable in the current period and therefore are not reported in the funds.		(68,342)
Net assets of governmental activities	\$	<u>49,614,213</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, 2004

	<b>General Fund</b>	<b>Mental Health/ Mental Retardation</b>	<b>Children and Youth</b>	<b>HealthChoices- Cumberland County</b>	<b>Other non-major funds</b>	<b>Total</b>
<b>Revenues:</b>						
Taxes	\$ 29,325,773	—	—	—	844,569	30,170,342
Licenses and permits	91,160	—	—	—	12,137	103,297
Grants	5,655,283	25,940,524	7,645,573	13,220,841	12,295,902	64,758,123
County charges	6,426,467	—	466,207	—	2,397,561	9,290,235
Court costs, fines and forfeitures	841,100	—	—	—	239,081	1,080,181
Interest	295,168	70,440	11	2,536	112,898	481,053
Contributions and other	181,235	145,758	2,963	—	77,510	407,466
Total revenues	<u>42,816,186</u>	<u>26,156,722</u>	<u>8,114,754</u>	<u>13,223,377</u>	<u>15,979,658</u>	<u>106,290,697</u>
<b>Expenditures:</b>						
Current:						
General government – administrative	8,069,975	—	—	—	25,015	8,094,990
General government – judicial	10,021,551	—	—	—	3,495,868	13,517,419
Public safety	11,476,018	—	—	—	—	11,476,018
Public works and enterprises	—	—	—	—	913,625	913,625
Human services	640,136	26,638,694	9,374,020	13,223,377	10,397,405	60,273,632
Culture and recreation	86,177	—	—	—	844,884	931,061
Conservation and development	485,189	—	—	—	115,920	601,109
Economic development and assistance	1,314,077	—	—	—	—	1,314,077
Debt service:						
Principal retirement	—	—	—	—	1,805,980	1,805,980
Debt interest	—	—	—	—	463,500	463,500
Bond issuance cost	—	—	—	—	128,612	128,612
Capital outlay	2,143,237	40,436	157,602	—	1,390,645	3,731,920
Payments to other governments	81,600	—	—	—	414,664	496,264
Total expenditures	<u>34,317,960</u>	<u>26,679,130</u>	<u>9,531,622</u>	<u>13,223,377</u>	<u>19,996,118</u>	<u>103,748,207</u>
Excess (deficiency) of revenues over expenditures	<u>8,498,226</u>	<u>(522,408)</u>	<u>(1,416,868)</u>	<u>—</u>	<u>(4,016,460)</u>	<u>2,542,490</u>
<b>Other financing sources (uses):</b>						
Transfers in	861,116	522,408	1,460,411	—	4,036,125	6,880,060
Transfers out	(6,243,206)	—	(43,543)	—	(1,399,419)	(7,686,168)
Payment to refund bonds	—	—	—	—	(3,775,051)	(3,775,051)
Proceeds from long-term debt	3,060,249	—	—	—	4,764,668	7,824,917
Total other financing sources (uses)	<u>(2,321,841)</u>	<u>522,408</u>	<u>1,416,868</u>	<u>—</u>	<u>3,626,323</u>	<u>3,243,758</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	6,176,385	—	—	—	(390,137)	5,786,248
Fund balances, beginning of year	9,663,661	—	—	—	6,812,328	16,475,989
Fund balances, end of year	\$ <u>15,840,046</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,422,191</u>	<u>22,262,237</u>

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, 2004

Net change in fund balances--total governmental funds	\$	5,786,248
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.		1,873,575
The net effect involving the disposal of capital assets.		(37,112)
Deferred revenues that provide current financial resources in the governmental funds but are earned in the statement of activities.		147,535
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.		(2,267,015)
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.		109,624
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.		(139,278)
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.		(19,215)
Internal service fund are used by management to charge the cost of workers' compensation to individual funds.		(1,479)
Change in net assets of governmental activities	\$	<u>5,452,883</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, 2004

	<b>Business-type Activities</b>				
	<b>Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other non- major funds</b>	<b>Totals</b>	<b>Workers' Compensation</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 4,048,287	82,980	200	4,131,467	1,535,562
Due from other funds	—	—	223,122	223,122	—
Accounts receivable (net of allowance):					
Patient accounts receivable	1,792,868	—	—	1,792,868	—
Customer accounts receivable	—	193,093	31,629	224,722	1,500
Prepaid items	31,752	9,885	—	41,637	—
Total current assets	<u>5,872,907</u>	<u>285,958</u>	<u>254,951</u>	<u>6,413,816</u>	<u>1,537,062</u>
Noncurrent assets:					
Restricted cash - patient funds	145,412	—	—	145,412	—
Restricted investments - bond proceeds	—	2,911,720	—	2,911,720	—
Capital assets, net of depreciation	15,302,596	6,509,712	1,000,844	22,813,152	—
Total noncurrent assets	<u>15,448,008</u>	<u>9,421,432</u>	<u>1,000,844</u>	<u>25,870,284</u>	<u>—</u>
Total assets	<u>21,320,915</u>	<u>9,707,390</u>	<u>1,255,795</u>	<u>32,284,100</u>	<u>1,537,062</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	378,990	222,478	29,053	630,521	10,780
Accrued liabilities and withholdings:					
Accrued payroll	206,467	36,710	16,662	259,839	—
Accrued interest	14,040	8,061	—	22,101	—
Due to other funds	827,682	849,682	—	1,677,364	—
Deferred revenue	—	49,000	51,446	100,446	—
Funds held as fiduciary	307,222	—	—	307,222	—
Total current liabilities	<u>1,734,401</u>	<u>1,165,931</u>	<u>97,161</u>	<u>2,997,493</u>	<u>10,780</u>
Noncurrent liabilities:					
Due in less than one year:					
Bond arbitrage payable	—	222,139	—	222,139	—
Capital lease payable	—	—	10,860	10,860	—
General obligation bonds payable	246,496	167,521	—	414,017	—
Workers' compensation claims payable	—	—	—	—	575,633
Sick and vacation accrual	45,636	5,457	7,235	58,328	—
Due in more than one year:					
Bond arbitrage payable	—	69,633	—	69,633	—
Capital lease payable	—	—	20,139	20,139	—
General obligation bonds payable	13,462,842	10,007,260	—	23,470,102	—
Workers' compensation claims payable	—	—	—	—	799,775
Sick and vacation accrual	557,275	195,543	48,020	800,838	—
Total noncurrent liabilities	<u>14,312,249</u>	<u>10,667,553</u>	<u>86,254</u>	<u>25,066,056</u>	<u>1,375,408</u>
Total liabilities	<u>16,046,650</u>	<u>11,833,484</u>	<u>183,415</u>	<u>28,063,549</u>	<u>1,386,188</u>
<b>Net assets</b>					
Invested in capital assets, net related debt	1,300,720	(959,707)	969,845	1,310,858	—
Unrestricted	3,973,545	(1,166,387)	102,535	2,909,693	150,874
Total net assets	<u>\$ 5,274,265</u>	<u>(2,126,094)</u>	<u>1,072,380</u>	<u>4,220,551</u>	<u>150,874</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 Workers' 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.	150,874
Adjustment to reflect the consolidation of internal service activity related to enterprise funds.	26,584
Net assets of business-type activities	<u>\$ 4,398,009</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

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

For the year ended December 31, 2004

	<b>Business-type Activities</b>				<b>Internal Service Fund Workers' Compensation</b>
	<b>Enterprise Funds</b>			<b>Totals</b>	
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other non- major funds</b>		
<b>Operating revenues:</b>					
Charges for sales and services:					
County charges	\$ 20,903,927	2,098,908	1,189,473	24,192,308	675,000
Rentals and other revenues	34,547	—	—	34,547	—
Total operating revenues	<u>20,938,474</u>	<u>2,098,908</u>	<u>1,189,473</u>	<u>24,226,855</u>	<u>675,000</u>
<b>Operating expenses:</b>					
Patient/client services	15,563,562	3,030,006	1,972,398	20,565,966	—
Depreciation	956,132	828,415	272,232	2,056,779	—
Loss and loss adjusting	—	—	—	—	554,973
Administrative	2,963,348	84,279	—	3,047,627	123,670
Total operating expenses	<u>19,483,042</u>	<u>3,942,700</u>	<u>2,244,630</u>	<u>25,670,372</u>	<u>678,643</u>
Operating income (loss)	<u>1,455,432</u>	<u>(1,843,792)</u>	<u>(1,055,157)</u>	<u>(1,443,517)</u>	<u>(3,643)</u>
<b>Nonoperating revenues (expenses):</b>					
Grants	—	—	668,075	668,075	—
Interest income	31,775	22,938	753	55,466	12,215
Interest expense	(238,341)	(84,560)	(2,920)	(325,821)	—
Payment to municipalities	—	(194,123)	—	(194,123)	—
Total net nonoperating revenues (expenses)	<u>(206,566)</u>	<u>(255,745)</u>	<u>665,908</u>	<u>203,597</u>	<u>12,215</u>
Income (loss) before operating transfers	1,248,866	(2,099,537)	(389,249)	(1,239,920)	8,572
Transfers in	—	1,024,878	219,213	1,244,091	—
Transfers out	(365,119)	(72,864)	—	(437,983)	—
Change in net assets	<u>883,747</u>	<u>(1,147,523)</u>	<u>(170,036)</u>	<u>(433,812)</u>	<u>8,572</u>
Total net assets - beginning	4,390,518	(978,571)	1,242,416		142,302
Total net assets - ending	\$ <u>5,274,265</u>	<u>(2,126,094)</u>	<u>1,072,380</u>		<u>150,874</u>

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

The internal service fund is used by management to charge the cost of Workers' Compensation claims to individual funds. The net revenues of certain activities of the internal service fund are reported within business-type activities.	8,572
Adjustment to reflect the consolidation of internal service fund activity related to enterprise funds.	<u>1,479</u>
Change in net assets of business-type activities	\$ <u>(423,761)</u>

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Cash Flows  
Proprietary Funds

For the year ended December 31, 2004

	<b>Business-type Activities</b>				
	<b>Enterprise Funds</b>				<b>Internal Service Fund</b>
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other non- major funds</b>	<b>Totals</b>	<b>Workers' Compensation</b>
<b>Cash flows from operating activities:</b>					
Cash received on surcharges	\$ —	2,144,562	—	2,144,562	—
Cash received on county charges	22,020,481	—	1,290,487	23,310,968	674,100
Payments to vendors	(4,413,768)	(765,124)	(992,301)	(6,171,193)	—
Payments to employees	(13,935,455)	(2,322,036)	(975,122)	(17,232,613)	(574,781)
Net cash provided by (used in) operating activities	<u>3,671,258</u>	<u>(942,598)</u>	<u>(676,936)</u>	<u>2,051,724</u>	<u>99,319</u>
<b>Cash flows from noncapital financing activities:</b>					
Subsidy from federal/state grants	—	—	680,373	680,373	—
Payments to municipalities	—	(87,469)	—	(87,469)	—
Transfers from other funds	—	1,312,418	210,015	1,522,433	—
Transfers to other funds	—	(72,864)	(107,340)	(180,204)	—
Proceeds from tax anticipation note	24,022,712	—	—	24,022,712	—
Principal paid on tax anticipation notes	(24,022,712)	—	—	(24,022,712)	—
Net cash provided by noncapital financing activities	<u>—</u>	<u>1,152,085</u>	<u>783,048</u>	<u>1,935,133</u>	<u>—</u>
<b>Cash flows from capital financing activities:</b>					
Proceed from the issuance of long-term debt	104,415	—	—	104,415	—
Subsidy from federal/state grants	—	—	2,471	2,471	—
Transfers from other funds	90,791	—	—	90,791	—
Purchase of capital assets	(80,130)	(113,663)	(96,388)	(290,181)	—
Principal paid on capital debt	(326,258)	(157,187)	(10,028)	(493,473)	—
Interest paid on capital debt	(238,858)	(168,392)	(2,920)	(410,170)	—
Net cash used in capital financing activities	<u>(450,040)</u>	<u>(439,242)</u>	<u>(106,865)</u>	<u>(996,147)</u>	<u>—</u>
<b>Cash flows from investing activities:</b>					
Proceeds from the sale and maturities of investments	30,289	299,607	—	329,896	—
Purchase of investments	(1,322)	(21,986)	—	(23,308)	—
Investment income received	31,775	22,938	753	55,466	12,215
Net cash provided by investing activities	<u>60,742</u>	<u>300,559</u>	<u>753</u>	<u>362,054</u>	<u>12,215</u>
Net increase in cash and cash equivalents	3,281,960	70,804	—	3,352,764	111,534
Cash and cash equivalents, January 1	911,739	12,176	200	924,115	1,424,028
Cash and cash equivalents, December 31	<u>\$ 4,193,699</u>	<u>82,980</u>	<u>200</u>	<u>4,276,879</u>	<u>1,535,562</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 1,455,432	(1,843,792)	(1,055,157)	(1,443,517)	(3,643)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:					
Depreciation expense	956,132	828,415	272,232	2,056,779	—
Loss on disposal of capital assets	4,271	—	25,726	29,997	—
Changes in assets and liabilities in:					
Due from other governments	—	—	8,800	8,800	—
Accounts receivable	1,142,419	45,658	—	1,188,077	(900)

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Statement of Cash Flows  
Proprietary Funds

For the year ended December 31, 2004

	<b>Business-type Activities</b>				<b>Internal Service Fund Workers' Compensation</b>
	<b>Enterprise Funds</b>			<b>Totals</b>	
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other non- major funds</b>		
(Continued)					
Customer accounts receivable	\$ —	—	50,621	50,621	—
Prepaid items	(9,882)	6,365	—	(3,517)	—
Other assets	22,581	17,297	—	39,878	—
Accounts payable	218,035	(14,667)	(34,708)	168,660	(1,181)
Accrued liabilities and withholdings	(158,263)	18,126	15,102	(125,035)	—
Due to other funds	—	—	40,448	40,448	—
Funds held as fiduciary	40,533	—	—	40,533	—
Long term debt-claims payable	—	—	—	—	105,043
Total adjustments	<u>2,215,826</u>	<u>901,194</u>	<u>378,221</u>	<u>3,495,241</u>	<u>102,962</u>
Net cash provided by (used in) operating activities	<u>\$ 3,671,258</u>	<u>(942,598)</u>	<u>(676,936)</u>	<u>2,051,724</u>	<u>99,319</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, 2004

	<b>Pension Trust – Employees Retirement</b>	<b>Agency Funds</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,740,782	2,577,574
Investments:		
U.S. Government securities	25,627,580	—
Corporate bonds	10,729,376	—
Corporate stocks	29,539,707	—
Mutual funds	22,945,489	—
Total investments	<hr/> 88,842,152	<hr/> —
Accrued interest	<hr/> 422,212	<hr/> —
Total assets	<hr/> 91,005,146	<hr/> 2,577,574
<b>Liabilities</b>		
Accounts payable	—	5,641
Due to other governments	—	1,482,034
Funds held as fiduciary	—	649,920
Other liabilities	15,953	439,979
Total liabilities	<hr/> 15,953	<hr/> 2,577,574
<b>Net assets</b>		
Net assets held in trust for pension benefits and other purposes	\$ 90,989,193	—
	<hr/> <hr/>	<hr/> <hr/>

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

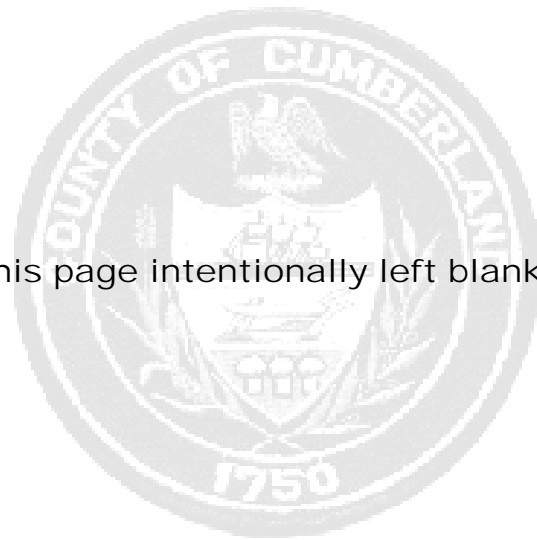
Statement of Changes in Fiduciary Net Assets - Pension Trust Fund

For the year ended December 31, 2004

Additions:	
Contributions:	
Employer	\$ 2,084,919
Plan members	<u>2,074,770</u>
Total contributions	<u>4,159,689</u>
Investment income:	
Net appreciation in fair value of investments	5,954,606
Interest	1,507,181
Dividends	<u>547,979</u>
Net investment income	<u>8,009,766</u>
Total additions	<u>12,169,455</u>
Deductions:	
Benefits	3,080,389
Refunds of contributions	776,580
Administrative expenses	<u>336,587</u>
Total deductions	<u>4,193,556</u>
Change in net assets	7,975,899
Net assets:	
Beginning of year	<u>83,013,294</u>
End of year	<u>\$ 90,989,193</u>

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

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## **Notes to the Financial Statements**

# COUNTY OF CUMBERLAND, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2004

### 1. Summary of Significant Accounting Policies

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

#### A. The Reporting Entity

The County of Cumberland is located in south central Pennsylvania, to the immediate west of the City of Harrisburg, the Capitol 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 219,892 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 because although they are joint ventures with a neighboring County, they provide services predominantly to Cumberland County.

#### (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:

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2004

#### **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 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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2004

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 not-for-profit agencies. In addition to housing rehabilitation the Authority carries out public facility improvements and a blighted property elimination program within the County.

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

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

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

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

- Affordable Housing Trust Fund Board
- Aging Advisory Board
- Agricultural Land Preservation Board
- Capital Area Behavioral Health Collaborative Board
- Children Services Citizen Advisory Committee
- Central Cumberland County Task Force on Regional Development
- Cooperative Extension
- Cumberland County Commission for Women
- Cumberland County Blighted Property Reinvestment Board
- Drug & Alcohol Commission Advisory Board

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

Economic Development Steering Committee  
Economic Development Task Force  
Harrisburg Area Transportation Study Technical Committee  
Harrisburg Area Coordinating Committee  
LeTort Regional Authority  
Local Emergency Planning Committee  
Mental Health/Mental Retardation Advisory Board  
Municipal Authority  
Open Space Preservation 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.

Selected disclosures from CAT’s 2004 audited financial statements are:

Fiscal year:	June 30, 2004
Operating revenues	\$ 5,681,645
Operating expenses	14,301,130
Loss from operations	(8,619,485)
Total nonoperating revenues (expenses)	7,528,484
Capital grant funding	2,731,160
Net assets	14,577,641
Unrestricted deficit	(1,128,247)

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2004

CAT disclosed an unrestricted accumulated deficit of \$1,128,247 as of June 30, 2004. 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. Under the terms of a 2003 revolving bank loan with a maximum available amount of \$1,400,000, CAT has \$1,010,723 outstanding at June 30, 2004. 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 assignable operating grant revenues and by the 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 2004, the County paid \$240,878 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 of America applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

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

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

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

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*.

# COUNTY OF CUMBERLAND, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2004

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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 typically an eligibility criterion. Any excess of grant receipts or grant expenditures at year end is recorded as deferred revenue or accounts receivable, respectively.

The County applies to the government-wide and enterprise fund financial statements those applicable Governmental Accounting Standards Board (GASB) pronouncements and only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principals 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 judgements, are recorded only when payment is due.

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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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 individuals in the community with medical/nursing needs who require residential nursing home care.

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

Additionally, the County reports the following fund types:

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

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

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

*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



## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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activities. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Operating revenues consist principally of billings for medical care, pharmaceuticals and room and board at the County Nursing Home. Operating revenues consist of tuition in the Early Learning Center; taxes charged to phone customers in the Emergency Telephone Fund; and fees assessed to material handlers in Hazardous Materials.

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

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

#### **I. 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**

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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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 for use on the implementation of a Countywide enterprise resource planning system, open space, agricultural easements, and Commonwealth funds held by the County to be disbursed to other counties in the form of assisted technology grants.

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

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

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

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

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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

**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 funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond discounts, as well as issuance

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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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 issuance costs and discount.

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 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 Clerk of Courts automation***

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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Monies collected per statute on behalf of the Clerk of Courts automation fund are restricted solely for the purpose of automation and continued automation update of the Clerk of Courts Office.

**(3) Reserve for Prothonotary automation**

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

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

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

**(5) Reserve for hotel tax**

Hotel tax collections are restricted by statute to spending on economic development and tourism promotion activities.

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

Certain proceeds from the County's 2004 General Obligation Bond issue are restricted to promote farmland preservation, open space and greenways in the County.

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

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

**(8) Reserve for criminal investigation**

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

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

**(1) Future capital projects**

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

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

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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.

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

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

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

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

### **Q. Retirement Benefits**

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

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

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

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

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.

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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

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

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

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

## **2. 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**

Notes to Financial Statements

December 31, 2004

	Category			Bank balance	Carrying amount
	1	2	3		
<b>Governmental activities</b>					
Cash and cash equivalents:					
Demand deposits	\$ 200,000	880,939	583,598	1,664,537	2,425,270
Certificates of deposit	—	—	12,744,000	12,744,000	12,744,000
Total cash and cash equivalents	\$ 200,000	880,939	13,327,598	14,408,537	15,169,270
<b>Business-type activities</b>					
Cash and cash equivalents:					
Demand deposits	\$ 200,000	—	3,821,839	4,021,839	4,000,441
Certificates of deposit	—	—	1,812,000	1,812,000	1,812,000
Total cash and cash equivalents	\$ 200,000	—	5,633,839	5,833,839	5,812,441
<b>Fiduciary funds</b>					
Cash and cash equivalents:					
Demand deposits	\$ 141,172	1,292,091	2,108,838	3,873,235	4,318,356
Total cash and cash equivalents	\$ 141,172	1,292,091	2,108,838	3,873,235	4,318,356
<b>Component units</b>					
Cash and cash equivalents:					
Demand deposits	\$ —	264,427	—	264,427	264,266
Certificates of deposit	—	—	167,000	167,000	167,000
Total cash and cash equivalents	\$ —	264,427	167,000	431,427	431,266



# COUNTY OF CUMBERLAND, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2004

### **3. Investments**

The investments of the County at December 31, 2004, 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 agent, 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.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

The fair value and category of the investments of the County at December 31, 2004, were as follows:

	Category			Uncategorized	Total Carrying Value	Total Fair Value
	1	2	3			
<b>Governmental activities</b>						
Investments:						
US Treasury securities	\$ —	—	906,476	—	894,411	906,476
Certificates of deposit	—	—	1,571,000	—	1,571,000	1,571,000
Corporate Debt	—	—	—	3,942,204	3,942,116	3,942,204
Total investments	\$ —	—	2,477,476	3,942,204	6,407,527	6,419,680
<b>Business-type activities</b>						
Investments:						
Corporate debt	\$ 100,000	—	—	2,811,720	2,911,720	2,911,720
Total investments	\$ 100,000	—	—	2,811,720	2,911,720	2,911,720
<b>Fiduciary funds</b>						
Investments:						
U.S. Government securities	\$ —	—	25,627,580	—	25,627,580	25,627,580
Corporate bonds	—	—	10,729,376	—	10,729,376	10,729,376
Corporate stocks	—	—	29,539,707	—	29,539,707	29,539,707
Mutual funds	—	—	—	22,945,489	22,945,489	22,945,489
Investment contracts	—	—	—	—	—	—
Total investments	\$ —	—	65,896,663	22,945,489	88,842,152	88,842,152
<b>Component units</b>						
Investments:						
Certificates of deposit	\$ —	—	75,416	—	75,416	75,416
Total investments	\$ —	—	75,416	—	75,416	75,416

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2004

At December 31, 2004, the Pension Trust Fund had no funds invested in asset-backed securities issued by private sector financial services corporations. In prior years, the Pension Trust Fund purchased these instruments to increase the total rate of return for the portfolio. All asset-backed securities were rated AAA by national credit rating agencies. The market risk relating to these instruments was minimal and similar to that of a non-derivative product.

#### **4. Real Estate Taxes**

Real estate taxes attach as an enforceable lien on property as of January 1 and are levied on March 1. The County bills these taxes which are collected by elected tax collectors. Taxes paid through April 30 are given a 2% discount. Amounts paid after June 30 are assessed a 10% penalty. The County collects delinquent real estate taxes on behalf of itself and other taxing authorities. Real estate tax receivable are reduced by an allowance for uncollectible accounts of \$350,373 for 2004 which is determined by a review of account status.

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 2004, County real estate taxes were levied at the rate of 2.149 mills for general County purposes. An additional levy was approved by the electorate for the County library system at .203 mills. This tax is accounted for as an agency transaction and the revenues are not recognized by the County.

#### **5. Due from Other Governments and Accounts Receivable**

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2004. Additionally, the County Nursing Home has \$2,480,806 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 \$687,938 against the patient accounts receivable.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**6. Capital Assets**

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and improvements	\$ 1,673,028	-	-	1,673,028
Construction in progress	1,615,868	1,192,329	(1,500,628)	1,307,569
Agricultural easements	<u>17,905,092</u>	<u>1,726,193</u>	-	<u>19,631,285</u>
Total capital assets, not being depreciated	<u>21,193,988</u>	<u>2,918,522</u>	<u>(1,500,628)</u>	<u>22,611,882</u>
Capital assets, being depreciated:				
Buildings and systems	32,891,939	67,877	-	32,959,816
Improvements other than buildings	54,566	-	-	54,566
Machinery and equipment	9,660,137	2,312,782	(235,985)	11,736,934
Bridges	<u>6,774,381</u>	-	-	<u>6,774,381</u>
Total capital assets being depreciated	<u>49,381,023</u>	<u>2,380,659</u>	<u>(235,985)</u>	<u>51,525,697</u>
Less accumulated depreciation for:				
Buildings and systems	(19,944,397)	(839,664)	-	(20,784,061)
Improvements other than buildings	(47,588)	(2,729)	-	(50,317)
Machinery and equipment	(6,569,013)	(950,954)	194,201	(7,325,766)
Bridges	<u>(5,121,332)</u>	<u>(126,959)</u>	-	<u>(5,248,291)</u>
Total accumulated depreciation	<u>(31,682,330)</u>	<u>(1,920,306)</u>	<u>194,201</u>	<u>(33,408,435)</u>
Total capital assets, being depreciated, net	<u>17,698,693</u>	<u>460,353</u>	<u>(41,784)</u>	<u>18,117,262</u>
Governmental activities capital assets, net	<u>\$ 38,892,681</u>	<u>3,378,875</u>	<u>(1,542,412)</u>	<u>40,729,144</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**6. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ -	95,809	-	95,809
Total capital assets, not being depreciated	<u>-</u>	<u>95,809</u>	<u>-</u>	<u>95,809</u>
Capital assets, being depreciated:				
Buildings and systems	26,005,098	63,850	-	26,068,948
Improvements other than buildings	549,615	-	-	549,615
Machinery and equipment	12,480,305	131,512	(316,277)	12,295,540
Total capital assets being depreciated	<u>39,035,018</u>	<u>195,362</u>	<u>(316,277)</u>	<u>38,914,103</u>
Less accumulated depreciation for:				
Buildings and systems	(8,469,849)	(946,678)	-	(9,416,527)
Improvements other than buildings	(163,102)	(27,234)	-	(190,336)
Machinery and equipment	(5,762,316)	(1,082,966)	255,385	(6,589,897)
Total accumulated depreciation	<u>(14,395,267)</u>	<u>(2,056,878)</u>	<u>255,385</u>	<u>(16,196,760)</u>
Total capital assets, being depreciated, net	<u>24,639,751</u>	<u>(1,861,516)</u>	<u>(60,892)</u>	<u>22,717,343</u>
Business-type activities capital assets, net	<u>\$ 24,639,751</u>	<u>(1,765,707)</u>	<u>(60,892)</u>	<u>22,813,152</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**6. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending Balance</u>
<b>Component units:</b>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 134,136	1,350	-	135,486
Total capital assets being depreciated	<u>134,136</u>	<u>1,350</u>	<u>-</u>	<u>135,486</u>
Less accumulated depreciation for:				
Machinery and equipment	<u>(72,182)</u>	<u>(20,853)</u>	<u>-</u>	<u>(93,035)</u>
Total accumulated depreciation	<u>(72,182)</u>	<u>(20,853)</u>	<u>-</u>	<u>(93,035)</u>
Total capital assets, being depreciated, net	<u>61,954</u>	<u>(19,503)</u>	<u>-</u>	<u>42,451</u>
Component unit capital assets, net	\$ <u><u>61,954</u></u>	<u><u>(19,503)</u></u>	<u><u>-</u></u>	<u><u>42,451</u></u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

Depreciation expense was charged to the functions/programs of the County in 2004 as follows:

Governmental activities:

General Government	\$	1,088,386
Public Safety		531,115
Roads and Bridge Maintenance		126,958
Solid Waste Management		50,135
Human services:		
Mental Health/Mental Retardation		41,467
Children and Youth		43,633
Food and Shelter		6,242
Office of Aging		27,964
Other		44,253
Conservation		1,933
Total depreciation expense - governmental activities	\$	<u>1,962,086</u>

Business-type activities:

Emergency Telephone	\$	828,415
Hazardous Materials Protection		22,235
Transportation Services		237,294
County Nursing Home		956,132
Early Learning Center		12,703
Total depreciation expense - business-type activities	\$	<u>2,056,779</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**7. Interfund and Transfer Accounts**

The composition of interfund balances at December 31, 2004 follows:

	<b>Interfund receivables</b>	<b>Interfund payables</b>
<b>Governmental Funds:</b>		
General Fund	\$ 3,005,833	—
Mental Health/Mental Retardation	579,090	—
Children and Youth	—	2,031,208
HealthChoices-Cumberland County	—	5,321
Other non-major funds	1,291,692	1,385,844
	4,876,615	3,422,373
<b>Enterprise Funds:</b>		
County Nursing Home	—	827,682
Emergency Telephone	—	849,682
Other non-major funds	223,122	—
	223,122	1,677,364
<b>Total primary government</b>	<b>\$ 5,099,737</b>	<b>5,099,737</b>

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 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.



**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

The composition of interfund transfers for the year ended December 31, 2004 follow:

	<u>Transfers in</u>	<u>Transfers out</u>
<b>Governmental Funds:</b>		
General	\$ 861,116	6,243,206
Mental Health/Mental Retardation	522,408	—
Children and Youth	1,460,411	43,543
HealthChoices-Cumberland County	—	—
Other non-major funds	4,036,125	1,399,419
	<u>6,880,060</u>	<u>7,686,168</u>
<b>Enterprise Funds:</b>		
County Nursing Home	—	365,119
Emergency Telephone	1,024,878	72,864
Other non-major funds	219,213	—
	<u>1,244,091</u>	<u>437,983</u>
<b>Total primary government</b>	\$ <u>8,124,151</u>	<u>8,124,151</u>

**8. Short-term Debt**

On September 28 and September 29, 2004, the County issued two Tax Revenue Anticipation Notes in the amount of \$12,011,356 (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 September 28 and September 29, 2004, the County repaid \$12,011,356 (each) related to these Tax Revenue Anticipation Notes. There was no outstanding balance at December 31, 2004 related to the issuance of this short-term debt during 2004. Short-term debt activity for the year ended December 31, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Revenue Anticipation Notes	\$ —	24,022,712	24,022,712	—

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**9. Long-term Debt**

The following is a summary of the changes in the County's long-term liabilities for the year ended December 31, 2004:

Liability	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<b>Governmental activities:</b>					
Bonds	\$ 8,872,954	7,824,917	4,635,886	12,061,985	1,075,983
Sick and vacation	2,793,657	1,901,657	1,762,379	2,932,935	146,573
Notes	1,615,000	—	900,000	715,000	—
Capital leases	34,763	—	22,016	12,747	5,262
Governmental activity long-term liabilities	<u>\$ 13,316,374</u>	<u>9,726,574</u>	<u>7,320,281</u>	<u>15,722,667</u>	<u>1,227,818</u>
<b>Business-type activities:</b>					
Bonds	\$ 24,223,269	100,155	439,305	23,884,119	414,017
Sick and vacation	832,680	327,916	301,430	859,166	58,328
Bond arbitrage	375,301	—	83,529	291,772	222,139
Workers' compensation	1,270,365	554,974	449,931	1,375,408	575,633
Capital leases	41,026	—	10,027	30,999	10,860
Business-type activity long-term liabilities	<u>\$ 26,742,641</u>	<u>983,045</u>	<u>1,284,222</u>	<u>26,441,464</u>	<u>1,280,977</u>
<b>Component Unit:</b>					
Sick and vacation Component unit Long-term liabilities	<u>\$ 40,023</u>	<u>20,745</u>	<u>16,464</u>	<u>44,304</u>	<u>3,137</u>
	<u>\$ 40,023</u>	<u>20,745</u>	<u>16,464</u>	<u>44,304</u>	<u>3,137</u>

In 2004 in the government-wide statements and the proprietary fund statements, the County began reporting amortizable bond charges, consisting of issuance costs, as an offset to the related long-term debt.

In governmental activities, unamortized bond charges were \$107,383 and \$217,009 at January 1 and December 31, 2004, respectively. In governmental activities in 2004, there were \$128,614 of additional fees related to the 2004 bond issue and \$18,988 of amortization charged to interest expense.

In business-type activities, unamortized bond charges were \$538,777 and \$498,896 at January 1 and December 31, 2004, respectively. In business-type activities in 2004, there were \$4,260 of additional fees related to the 2004 bond issue and \$44,141 of amortization charged to interest expense.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

The January 1, 2004 balances of business-type activities bonds and workers' compensation were restated to conform to the current year presentation.

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

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

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

All bonds and notes outstanding at December 31, 2004 are general obligation debt supported by the full faith and credit of the County and are summarized as follows:

	<u>Interest rate</u>	<u>Final maturity</u>	<u>Governmental activities</u>	<u>Business- type activities</u>
G.O. bonds – 2000 issue	Variable rate	2020	\$ —	10,920,000
G.O. bonds – 2001 issue	Variable rate	2021	—	9,045,000
G.O. bonds – 2002 issue	1.65% – 4.35%	2017	4,261,400	4,313,600
G.O. note – 2003 issue	5.857%	2022	715,000	—
G.O. bonds – 2004 issue	1.5%-4.55%	2019	<u>7,800,585</u>	<u>104,415</u>
Long-term debt at December 31, 2004			12,776,985	24,383,015
Less unamortized charges			<u>217,009</u>	<u>498,896</u>
Net long-term debt at December 31, 2004			<u>\$ 12,559,976</u>	<u>23,884,119</u>

Of the outstanding balance at December 31, 2004 of the 2000 bond issue, \$3,813,264 of the principal has been accounted for in the County Nursing Home Fund and \$7,106,736 of the principal has been accounted for in the Emergency Telephone Fund.

Of the outstanding balance at December 31, 2004 of the 2001 bond issue, \$7,382,529 of the principal has been accounted for in the County Nursing Home Fund and \$1,662,471 of the principal has been accounted for in the Emergency Telephone Fund.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

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.

Of the outstanding balance at December 31, 2004 of the 2002 bond issue, \$2,701,668 of the principal has been accounted for in the County Nursing Home Fund and \$1,611,932 of the principal has been accounted for in the Emergency Telephone Fund. Principal of \$4,261,400 has been accounted for in the General Fund.

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

In 2004, the County paid the final principal and interest on the \$900,000 Exit 44 infrastructure bank loan from the Commonwealth.

In 2004, the County issued general obligation bonds – 2004 issue in the amount of \$7,930,000 to retire the general obligation bonds – 1999 issue for \$3,930,000 and the remainder to fund Open Space/Farmland Preservation and various other capital projects. The 1999 bonds were called and fully paid. The refunding resulted in an \$80,593 savings in debt service payments and an economic gain of \$70,546. Of the outstanding balance at December 31, 2004 of the 2004 bond issue, \$7,800,585 of the principal has been accounted for in the General Fund and \$104,415 of the principal has been accounted for in the County Nursing Home Fund.

Unamortized charges at December 31, 2004 of \$292,539 and \$206,357 have been accounted for in the County Nursing Home Fund and the Emergency Telephone Fund, respectively.

The County’s legal debt margin was \$308,051,793 as of December 31, 2004.

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, 2004, including interest payments, are as follows:

		<b>Governmental- type activities</b>		<b>Business- type activities</b>	
		<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2005	\$	1,075,983	441,232	414,017	1,127,662
2006		1,292,893	415,460	402,107	1,120,995
2007		1,319,269	382,198	410,731	1,113,373
2008		1,364,321	340,604	420,679	1,104,051
2009		886,764	302,560	923,236	1,080,391
2010-2014		3,802,755	1,039,421	6,467,245	4,696,659
2015-2019		2,320,000	446,131	10,370,000	2,564,500
2020-2022		715,000	125,483	4,975,000	244,771
<b>Total</b>	<b>\$</b>	<b>12,776,985</b>	<b>3,493,089</b>	<b>24,383,015</b>	<b>13,052,402</b>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

**10. Negative Net Assets**

The County's emergency telephone fund has negative net assets of \$2,126,094 at December 31, 2004. 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.

**11. 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 \$460,015 for the year ended December 31, 2004.

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, 2004:

<u>Year ending December 31,</u>	<u>Lease payments</u>
2005	\$ 399,922
2006	290,111
2007	170,038
2008	106,697
2009	63,711
2010-2015	<u>101,502</u>
Total	<u>\$ 1,131,981</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, 2004.

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

The assets acquired through capital leases are as follows:

	<b>Governmental activities</b>	<b>Business-type activities</b>
Asset:		
Machinery and equipment	\$ 411,610	1,350
Less: Accumulated depreciation	(344,523)	(482)
Machinery and equipment, net	<u>\$ 67,087</u>	<u>868</u>
Building and systems		\$ 7,995
Less: Accumulated depreciation		(999)
Buildings and systems, net		<u>\$ 6,996</u>

The following is a schedule of future minimum payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2004:

	<b>Governmental activities</b>	<b>Business-type activities</b>
2005	\$ 5,837	12,947
2006	5,837	12,947
2007	1,946	8,631
Total minimum lease payments	<u>13,620</u>	<u>34,525</u>
Less amount representing interest	<u>(873)</u>	<u>(3,526)</u>
Present value of net minimum lease payments	<u>\$ 12,747</u>	<u>30,999</u>

**12. Cumberland County Retirement Plan**

**A. Plan Description**

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

As of December 31, 2004, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	356
Terminated plan members entitled to but not yet receiving benefits	75
Active plan members	<u>1,090</u>
Total	<u>1,521</u>

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

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All full-time employees are required to participate in the Plan. The pension plan provides pension benefits for normal retirement at age 60 (or 55 with 20 years of service) based on a formula including final average salary and years of credited service, in addition to the member's accumulated contribution to the Plan. The County share of the annual benefit is from 1% to 1.42% (depending on the date the employee entered into the plan) 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 retirement age. The Plan also provides for death and disability benefits. Cost-of-living adjustments for pensioners are provided at the discretion of the Retirement Board and must be reviewed once every 3 years.

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

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

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

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

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 2004 the County contributed \$2,084,919 to the Plan in accordance with actuarially determined contribution requirements, determined through an actuarial valuation performed at December 31, 2004 and state law, using the following assumptions:

	<b>December 31, 2004</b>
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

# COUNTY OF CUMBERLAND, PENNSYLVANIA

## Notes to Financial Statements

December 31, 2004

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.

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

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

Historical trend information for the Plan is presented as required supplementary information on page 83 of this report.

### **13. Litigation**

The County is involved in several lawsuits arising in the normal course of business. It is the County solicitor's opinion that the aggregate amount of potential claims not covered by insurance resulting from actions against the County would not materially affect the financial position of the County at December 31, 2004.

### **14. 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.

### **15. Self Insurance**

#### ***Workers' Compensation***

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

All County employees are covered by the Workers' Compensation Fund and funds of the County participate in the program and make payments to the Workers' Compensation Fund based on estimates of the amounts needed to pay prior and current year claims. Liabilities include an amount for claims that have been incurred



**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Notes to Financial Statements

December 31, 2004

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, 2004, were:

	Beginning of year liability	Provision for claims		Claim payments		End of year liability
		Current year	Prior years	Current year	Prior years	
2004	\$ 1,270,365	523,627	31,347	88,902	361,029	1,375,408
2003	\$ 997,648	482,993	282,281	89,338	403,219	1,270,365

**16. Non-Recourse Debt**

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

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

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, 2004, 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

## COUNTY OF CUMBERLAND, PENNSYLVANIA

### Notes to Financial Statements

December 31, 2004

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, 2004, the projects had \$21,712,114 in outstanding principal balances.

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

On April 28, 2005 the County Commissioners approved the issuance of general obligation notes in the amount of \$15,650,000. The proceeds will be used to refund the County's general obligation bonds-2000 issue, refund the final payment of the general obligation bonds-2001 issue, and to finance the County's energy conservation program.