

## 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, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units and the Cumberland Area Economic Development Corporation, a blended component unit which represents 1% or less of the revenues/additions, net assets and total assets of the governmental activities and the aggregate remaining fund information. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

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



In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2007 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 25 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 and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Ernst & Young LLP*

June 1, 2007

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, 2006. 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 \$45,010,386 (*net assets*). Of this amount, \$13,467,649 (*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 \$5,528,363.
- As of the close of the current calendar year, Cumberland County's governmental funds reported combined ending fund balances of \$32,556,756, an increase of \$7,832,713 in comparison to the prior year. Approximately 88 percent of the total amount (\$28,694,218) 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 \$16,231,782. Of this balance, approximately \$3,191,630 is designated for capital projects, farmland preservation, prisoner welfare expenditures, and future debt service payments.
- Cumberland County's total general obligation debt increased by \$7,420,169. The major changes in debt were: the issuance of a 2006 general obligation bond to fund several County projects including phase I prison renovations, the purchase of a building, building renovations and scheduled principal payments.
- The County was upgraded to a AA+ bond rating.
- The County's election office conducted a General Primary and General Election using new voting procedures and 621 new voting machines in 97 election districts.
- The County established three new programs designed to break the criminal cycle of offenders to reduce recidivism at the prison. The three programs are electronic monitoring/house arrest program, treatment court and day reporting/reentry program.
- The County implemented a new budget document that incorporates County Strategy and performance management into the budgeting process and document.

### **Overview of the Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

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

**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 an internal service fund to account for its workers' compensation fund. Because workers'

compensation services principally benefit business-type functions, they have been included within *business-type activities* in the government-wide financial statements.

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

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

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

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

**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 \$45,010,386 at the close of the most recent calendar year.

**Cumberland County's Net Assets**

|   | Governmental activities |                   | Business-type activities |                  | Total             |                   |
|---|-------------------------|-------------------|--------------------------|------------------|-------------------|-------------------|
|   | 2006                    | 2005              | 2006                     | 2005             | 2006              | 2005              |
| <b>Assets:</b>                                  |                         |                   |                          |                  |                   |                   |
| Current assets                                  | \$49,656,430            | 40,906,154        | 12,490,247               | 10,524,176       | 62,146,677        | 51,430,330        |
| Capital assets                                  | 29,327,160              | 24,305,774        | 20,972,847               | 22,205,656       | 50,300,007        | 46,511,430        |
| Other assets                                    | 40,224                  | 43,832            | -                        | -                | 40,224            | 43,832            |
| Total assets                                    | 79,023,814              | 65,255,760        | 33,463,094               | 32,729,832       | 112,486,908       | 97,985,592        |
| <b>Liabilities:</b>                             |                         |                   |                          |                  |                   |                   |
| Long-term liabilities outstanding               | 25,116,037              | 16,463,725        | 25,330,130               | 26,488,169       | 50,446,167        | 42,951,894        |
| Other liabilities                               | 15,513,080              | 13,778,241        | 1,517,275                | 1,773,434        | 17,030,355        | 15,551,675        |
| Total liabilities                               | 40,629,117              | 30,241,966        | 26,847,405               | 28,261,603       | 67,476,522        | 58,503,569        |
| <b>Net Assets:</b>                              |                         |                   |                          |                  |                   |                   |
| Invested in capital assets, net of related debt | 17,291,386              | 16,289,475        | (1,304,478)              | (857,994)        | 15,986,908        | 15,431,481        |
| Restricted                                      | 15,555,829              | 8,747,231         | -                        | -                | 15,555,829        | 8,747,231         |
| Unrestricted                                    | 5,547,482               | 9,977,088         | 7,920,167                | 5,326,223        | 13,467,649        | 15,303,311        |
| <b>Total net assets</b>                         | <b>\$38,394,697</b>     | <b>35,013,794</b> | <b>6,615,689</b>         | <b>4,468,229</b> | <b>45,010,386</b> | <b>39,482,023</b> |

A significant portion of Cumberland County's net assets (36 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 assets 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.

Thirty-five percent of the county's net assets are legally restricted (\$15,555,829). The remaining balance is *unrestricted net assets* (\$13,467,649) and may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Cumberland County is able to report positive fund balances in all three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities, with the exception of emergency telephone.

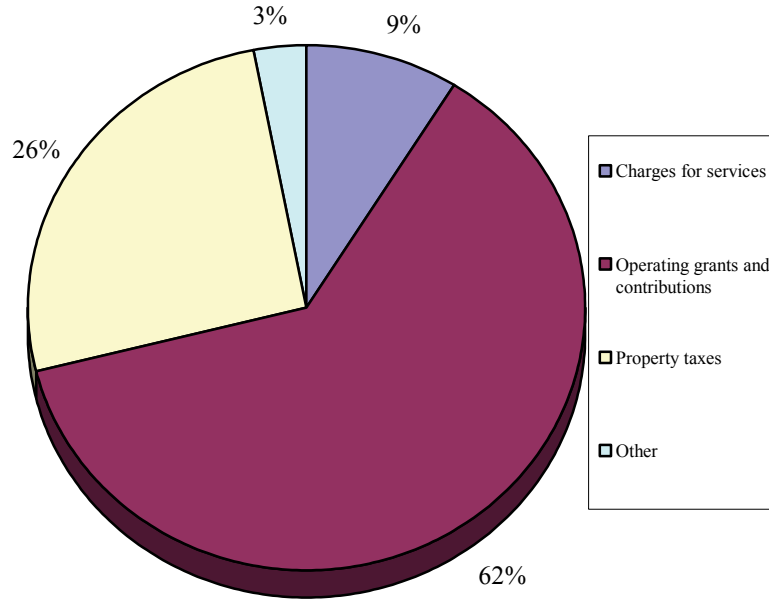
As part of the 800 MHz project, emergency telephone purchased radio equipment for different Cumberland County municipalities and County departments. Such assets are not on the balance sheet of emergency telephone and, therefore, do not offset the financing liability and so contribute to a negative net asset condition. This situation also existed in the prior fiscal year.

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

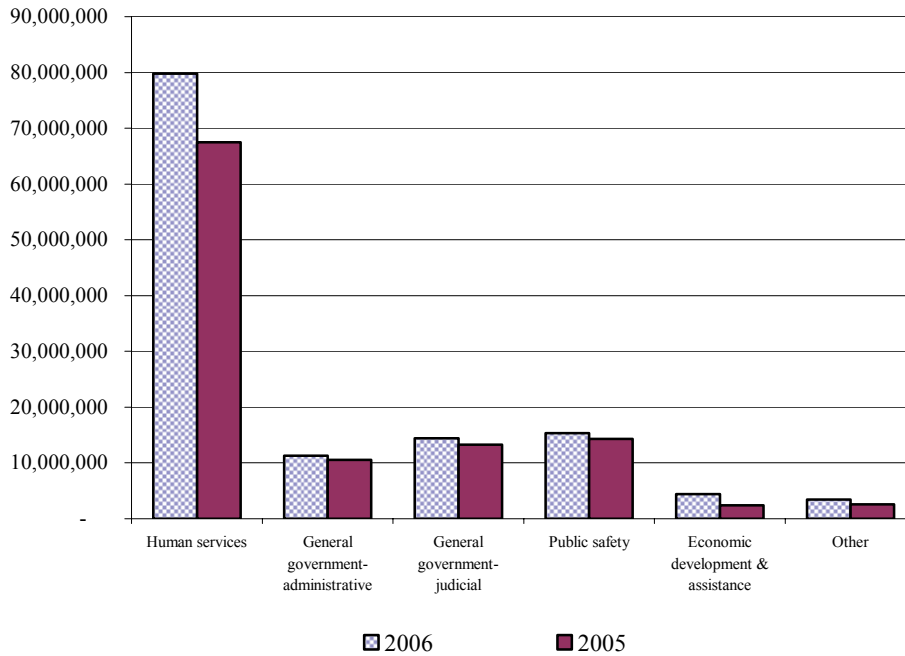
|  | Governmental activities |             | Business-type activities |             | Total       |             |
|--|-------------------------|-------------|--------------------------|-------------|-------------|-------------|
|  | 2006                    | 2005        | 2006                     | 2005        | 2006        | 2005        |
| <b>Revenues:</b>                                   |                         |             |                          |             |             |             |
| Program revenues:                                  |                         |             |                          |             |             |             |
| Charges for services                               | \$ 12,013,727           | 10,972,682  | 25,097,720               | 26,236,968  | 37,111,447  | 37,209,650  |
| Operating grants and contributions                 | 84,528,008              | 71,186,501  | 2,692,975                | 807,327     | 87,220,983  | 71,993,828  |
| Capital grants and contributions                   | 168,712                 | 55,124      | 76,263                   | 752,984     | 244,975     | 808,108     |
| General revenues:                                  |                         |             |                          |             |             |             |
| Property taxes                                     | 35,211,322              | 30,954,255  | -                        | -           | 35,211,322  | 30,954,255  |
| Other taxes  | 1,560,262               | 1,584,279   | -                        | -           | 1,560,262   | 1,584,279   |
| Unrestricted investment earnings                   | 2,403,031               | 1,183,081   | 344,333                  | 222,448     | 2,747,364   | 1,405,529   |
| Total revenues                                     | 135,885,062             | 115,935,922 | 28,211,291               | 28,019,727  | 164,096,353 | 143,955,649 |
| <b>Expenses:</b>                                   |                         |             |                          |             |             |             |
| General government-administrative                  | 11,265,601              | 10,533,064  | -                        | -           | 11,265,601  | 10,533,064  |
| General government-judicial                        | 14,431,904              | 13,309,987  | -                        | -           | 14,431,904  | 13,309,987  |
| Public safety                                      | 15,368,282              | 14,342,433  | -                        | -           | 15,368,282  | 14,342,433  |
| Roads and bridge maintenance                       | 1,472,466               | 1,125,543   | -                        | -           | 1,472,466   | 1,125,543   |
| Solid waste management                             | 567,813                 | 568,828     | -                        | -           | 567,813     | 568,828     |
| Human services                                     | 79,781,407              | 67,510,045  | -                        | -           | 79,781,407  | 67,510,045  |
| Culture and recreation                             | 45,273                  | 87,920      | -                        | -           | 45,273      | 87,920      |
| Conservation                                       | 711,848                 | 418,545     | -                        | -           | 711,848     | 418,545     |
| Community redevelopment and housing                | 379,553                 | 266,693     | -                        | -           | 379,553     | 266,693     |
| Economic development and assistance                | 4,437,310               | 2,380,343   | -                        | -           | 4,437,310   | 2,380,343   |
| Interest on long-term debt                         | 661,412                 | 470,589     | -                        | -           | 661,412     | 470,589     |
| Indirect expenses                                  | (393,955)               | (363,597)   | 393,955                  | 363,597     | -           | -           |
| Claremont Nursing and Rehabilitation Center        | -                       | -           | 21,604,381               | 20,509,268  | 21,604,381  | 20,509,268  |
| Early Learning Center                              | -                       | -           | 456,022                  | 407,655     | 456,022     | 407,655     |
| Emergency telephone                                | -                       | -           | 4,817,157                | 6,342,878   | 4,817,157   | 6,342,878   |
| Hazardous materials protection                     | -                       | -           | 223,403                  | 177,854     | 223,403     | 177,854     |
| Transportation services                            | -                       | -           | 1,889,158                | 1,722,524   | 1,889,158   | 1,722,524   |
| Workers' compensation                              | -                       | -           | 450,000                  | 840,151     | 450,000     | 840,151     |
| Total expenses                                     | 128,728,914             | 110,650,393 | 29,834,076               | 30,363,927  | 158,562,990 | 141,014,320 |
| Increase (decrease) in net assets before transfers | 7,156,148               | 5,285,529   | (1,622,785)              | (2,344,200) | 5,533,363   | 2,941,329   |
| Transfers  | (3,770,245)             | (2,414,420) | 3,770,245                | 2,414,420   | -           | -           |
| Increase in net assets                             | 3,385,903               | 2,871,109   | 2,147,460                | 70,220      | 5,533,363   | 2,941,329   |
| <b>Net assets, beginning, as restated</b>          | 35,008,794              | 32,142,685  | 4,468,229                | 4,398,009   | 39,477,023  | 36,540,694  |
| <b>Net assets, ending</b>                          | \$ 38,394,697           | 35,013,794  | 6,615,689                | 4,468,229   | 45,010,386  | 39,482,023  |

**Governmental activities.** The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2006:

**Revenues by Source - Governmental Activities**



**Expense Comparison by Activity - Governmental Activities**



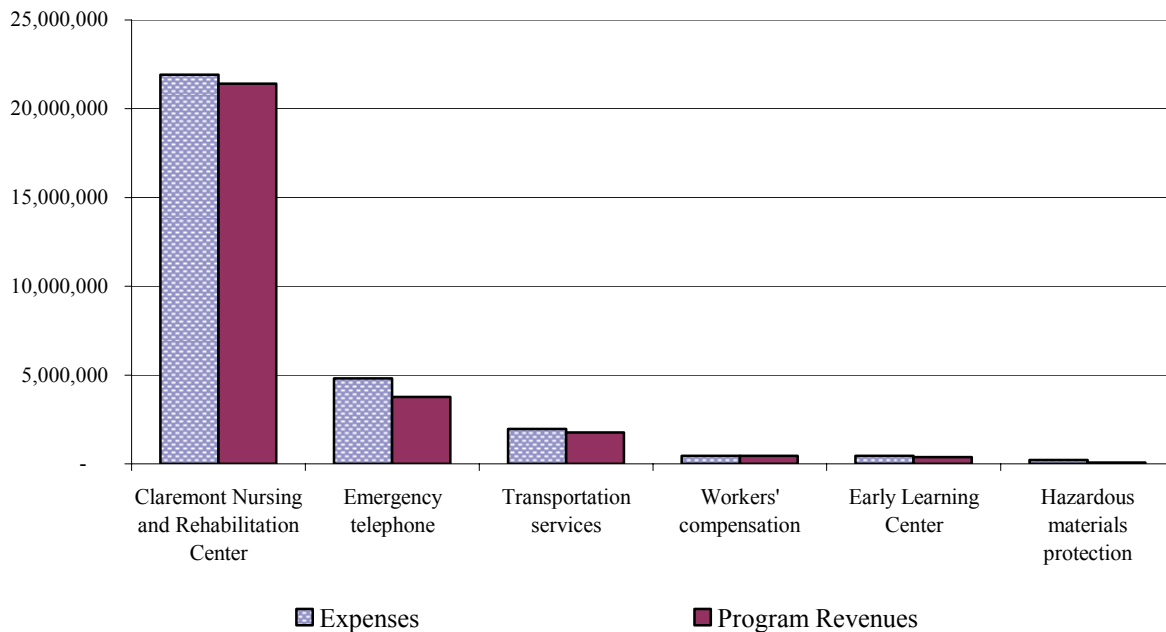


Governmental activities increased Cumberland County's net assets by \$3,385,903. The majority of this increase is caused by cost saving measures and planned major projects that were either postponed or financed with sources other than property tax as originally planned. The primary changes in revenues and expenses are:

- Property tax increased by \$4,257,067 (13.8 percent). This growth is due to a 9.5 percent millage increase, new construction, and renovations of existing property.
- Operating grants and contributions increased \$13,341,507 due mainly to six major grants:
  - Children and youth's grants increased \$781,520 mainly due to the increased Act 148 certified allocation and a prior year settlement.
  - HealthChoices increased \$4,591,837 due to increased capitation rates and in increase of member days.
  - MH/MR grants increased \$4,844,150 due mainly to the closure of the Harrisburg State Hospital and an increase in allocation.
  - Community Development Block Grant (CDBG) and Urban County grant increased \$1,881,807.
  - The HAVA (Help American's Vote Act) grant increased \$1,080,172 for the purchase of new voting equipment.
- Unrestricted investment earnings increased \$1,219,950 due to increased interest rates and increased cash balances.
- Charges for services increased \$1,041,045 due to discretionary grants from the State to community services and aging. The grants were one time monies spent at the discretion of the State.
- Human services revenue increased \$12,271,362 mainly due to increased grant funding. See the explanation for operating grants above.
- Transfers out increased \$1,355,825 mainly due to an increase in emergency telephone subsidy. Emergency telephone's surcharge revenue has been steadily declining over the past several years because home phones are being replaced with cell phones, but expenses have been steadily increasing.

**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, 2006:

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



Business type activities increased Cumberland County’s net assets by \$2,147,460. The primary changes in revenues and expenses are:

- Charges for services decreased by \$1,139,248. The majority of the decrease (\$449,044) is caused by the intergovernmental transfer payments to the nursing home. This payment is being phased out and the timing of the 2005/2006 payment was changed. Department fees for workers’ compensation decreased by \$390,151 based on actuarial funding requirements. In addition, the allowance for bad debt at the nursing home was increased by \$155,000.
- Capital grants and contributions have increased by \$1,885,648 due to the Wireless Surcharge Grant in emergency telephone.
- The nursing home’s expenses increased by \$1,095,113 due to normal increases in operating expenses.
- Emergency telephone’s expenses decreased \$1,525,721 mainly due to the purchase of radios for county municipalities as part of the 800 MHZ project in 2005. The project was financed with bond proceeds.
- Transfers increased \$1,355,825 mainly due an increase in the emergency telephone subsidy of \$961,117. Emergency telephone’s surcharge revenue has been steadily declining over the past several years because home phones are being replaced with cell phones, but expenses have been steadily increasing.

**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 \$32,556,756 and an increase of \$7,832,713 in comparison to the prior year. Approximately 88 percent of the total amount (\$28,694,218) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to:

- open space/farmland preservation (\$3,082,549)
- offender supervision (\$475,064)
- automation (\$58,253)
- Register of Wills Act 34 (\$20,005)
- prepaid items (\$123,262)
- criminal investigation (\$6,228)
- County election (\$97,177)

The general fund is the chief operating fund of Cumberland County. At the end of the year, the unreserved fund balance of the general fund was \$16,231,782 while total fund balance was \$20,094,320. 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 38 percent of total general fund expenditures, while total fund balance represents 47 percent of general fund expenditures.

The fund balance of Cumberland County's general fund increased by \$2,320,155 during the current year. Key factors in this growth are as follows:

- The County continued to achieve savings through improved line item management with the new financial software system.
- Interest earnings were substantially higher than the previous year and higher than budgeted due to increased interest rates.

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

Workers' compensation is presented as an internal service fund in this section and a business-type activity in the government-wide statements. Other factors concerning the finances of the County's proprietary funds have already been addressed in the discussion of Cumberland County's business-type activities.

### **General Fund Budgetary Highlights**

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

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

The Commissioners formally approve all budget revisions that change the bottom line of a fund during bi-weekly Commissioner's hearings. The County finance office approves all other budget revisions except

adjustments transferring budget from one operating line item to another within a department (approved by department head).

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

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

General fund budgeted revenues (including other financing sources) increased \$1,007,646. The following is a list of the adjustments:

|                             |           |
|-----------------------------|-----------|
| CBDG and Urban County grant | \$756,000 |
| Paul Coverdell grant        | \$100,000 |
| Prison transportation       | \$ 76,000 |
| PCCD forensic grant         | \$ 63,047 |
| Miscellaneous               | \$ 12,600 |

The actual revenues received were \$1,857,249 over budget, most of which is attributable to county charges (\$965,199), interest (\$641,404), and grants (\$235,331). The Recorder of Deeds office received more revenues than budgeted because mortgage interest rates remained lower than anticipated; prison room and board charges and housing revenue were higher than anticipated because inmates are earning higher wages than anticipated on work release, and the County was able to house more inmates from other jurisdictions than originally budgeted; interest rates increased, and the Community Development Block Grant (CDBG) and Urban County grant were higher than in the adjusted budget.

General fund budgeted expenditures (including other financing uses) increased \$1,776,047. The following is a list of the adjustments:

|                             |           |
|-----------------------------|-----------|
| CBDG and Urban County grant | \$756,000 |
| Subsidies                   | \$750,000 |
| Paul Coverdell grant        | \$100,000 |
| Prison transportation       | \$ 76,000 |
| PCCD forensic grant         | \$ 63,047 |
| Miscellaneous               | \$ 31,000 |

The subsidies were for children and youth, emergency telephone, and domestic relations.

Actual general fund expenditures (including other financing uses) were under the final budget by \$1,464,823. The major items under budget were:

|                  |           |
|------------------|-----------|
| Pooled reserves  | \$429,406 |
| Retirement       | \$194,699 |
| Subsidies        | \$584,569 |
| County buildings | \$ 91,011 |
| Communications   | \$ 64,172 |

There are several major reasons for the under budget situation. The pooled reserves budget was not utilized. The required retirement contribution was lower than the original projection. The budget was increased for children and youth subsidy, but the State increased their funding to cover the over-match. In addition county buildings had lower utilities costs directly related to the energy program, and the Allen Road project started later than originally anticipated.

**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, 2006, amounted to \$50,300,007 (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 8% percent (a 21% increase for governmental activities and a 6% decrease for business-type activities).

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

|                                   | Governmental activities |            | Business-type activities |            | Total      |            |
|-----------------------------------|-------------------------|------------|--------------------------|------------|------------|------------|
|                                   | 2006                    | 2005       | 2006                     | 2005       | 2006       | 2005       |
| Land                              | \$ 2,394,845            | 1,673,028  | -                        | -          | 2,394,845  | 1,673,028  |
| Buildings and systems             | 14,034,836              | 13,063,812 | 15,376,276               | 16,114,656 | 29,411,112 | 29,178,468 |
| Improvements other than buildings | 2,164                   | 2,645      | 309,829                  | 337,861    | 311,993    | 340,506    |
| Machinery and equipment           | 6,570,375               | 5,188,017  | 5,271,412                | 5,753,139  | 11,841,787 | 10,941,156 |
| Bridges                           | 1,308,467               | 1,411,794  | -                        | -          | 1,308,467  | 1,411,794  |
| Construction in progress          | 547,280                 | 464,318    | 15,330                   | -          | 562,610    | 464,318    |
| Agricultural easements            | 4,469,193               | 2,502,160  | -                        | -          | 4,469,193  | 2,502,160  |
| Total                             | \$29,327,160            | 24,305,774 | 20,972,847               | 22,205,656 | 50,300,007 | 46,511,430 |

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

- The County purchased an office facility and land located on Allen Road for \$1,684,241 and \$721,817, respectively.
- The County purchased eight agricultural easements for a total of \$1,967,033.
- The County invested \$1,692,125 in election equipment to meet the requirements of the "Help America Vote Act of 2002."
- Computer hardware of \$328,103 was purchased to supplement the County's technological needs.

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

**Debt Administration.** At the end of the current fiscal year, Cumberland County had net outstanding bonded debt of \$29,508,054. The County's net general obligation notes total \$15,179,570. This debt is backed by the full faith and credit of the government. Cumberland County does not have any special assessment debt or revenue bonds.



The County's net outstanding general obligation bonds and notes at December 31, 2006 and 2005 were:

|                          | Governmental activities |            | Business-type activities |            | Total      |            |
|--------------------------|-------------------------|------------|--------------------------|------------|------------|------------|
|                          | 2006                    | 2005       | 2006                     | 2005       | 2006       | 2005       |
| General obligation bonds | \$ 19,501,251           | 10,940,590 | 10,006,803               | 10,388,053 | 29,508,054 | 21,328,643 |
| General obligation notes | 2,299,581               | 2,416,707  | 12,879,989               | 13,522,105 | 15,179,570 | 15,938,812 |
| Total                    | \$ 21,800,832           | 13,357,297 | 22,886,792               | 23,910,158 | 44,687,624 | 37,267,455 |

Cumberland County's bonded debt increased by \$8,179,411. In 2006, Cumberland County issued a \$9,900,000 general obligation bond. The projects covered with this bond issue include farmland preservation, building acquisition and renovations, architectural planning for prison renovations, and the purchase of election equipment.

Cumberland County's rating increased to a "AA+" from Standard & Poor's for general obligation debt.

The current debt limitation for Cumberland County is \$375,593,703 which is significantly in excess of Cumberland County's current outstanding general obligation debt.

In 2007, Cumberland County is planning on refinancing the 2001 variable rate general obligation bonds.

Additional information on Cumberland County's long-term debt can be found in Note 9 on pages 69 to 71 of this report.

### **Economic Factors and Next Year's Budget**

Residents of Cumberland County benefited from one of the lowest unemployment levels in the Commonwealth throughout 2006. This recurring trend is expected to continue. Cumberland County's December 2006 unemployment rate was 2.8% while the statewide and national rates were 4.1% and 4.5%, respectively. Neighboring counties also have unemployment rates significantly below the statewide and national average. County residents also benefit from an array of employment opportunities based in the private sector as well as local, state, and federal governments.

Cumberland County continues to enjoy a diverse tax base with little concentration in any one taxpayer. The top ten taxpayers represent 2.736% of assessed values as of December 31, 2006.

Highlights of the County's initiatives in the 2007 budget include:

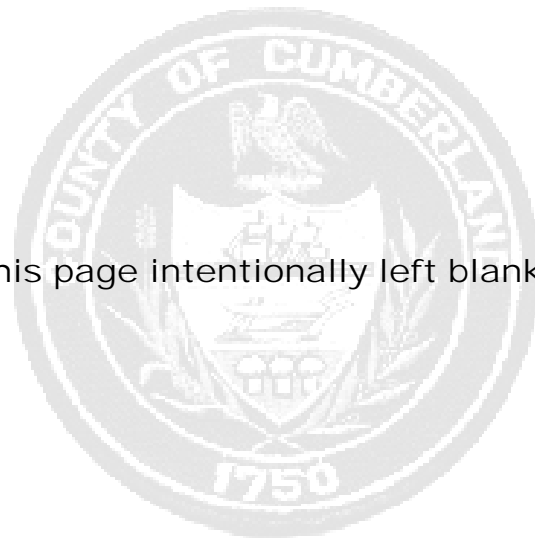
- Architectural planning phase of renovations for the County Prison.
- Farmland/open space preservation.
- Continue the performance management process.
- Upgrade the brownstone on the front of the Old Courthouse.
- Implementation of the probation day reporting center.

The General Fund ended 2006 with an unreserved/undesignated fund balance of \$13 million. At the end of 2007 the County is estimating an unreserved/undesignated fund balance of about \$11.8 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**

**STATEMENT OF NET ASSETS**

*December 31, 2006*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

|   | Primary Government      |                          |                    | Component Units       |                                  |
|---|-------------------------|--------------------------|--------------------|-----------------------|----------------------------------|
|   | Governmental Activities | Business-type Activities | Total              | Conservation District | Industrial Development Authority |
| <b>ASSETS</b>                                     |                         |                          |                    |                       |                                  |
| Cash and cash equivalents                         | \$ 28,682,853           | 5,906,999                | 34,589,852         | 301,711               | 26,763                           |
| Investments                                       | 2,028,198               | —                        | 2,028,198          | —                     | 189,167                          |
| Receivables (net of allowance):                   |                         |                          |                    |                       |                                  |
| Taxes   | 1,449,969               | —                        | 1,449,969          | —                     | —                                |
| Due from other governments                        | 7,509,643               | 96,324                   | 7,605,967          | 120,991               | —                                |
| Accounts receivable                               | 1,011,088               | 4,997,990                | 6,009,078          | —                     | 2,554                            |
| Court costs and fines receivable                  | 522,121                 | —                        | 522,121            | —                     | —                                |
| Notes receivable                                  | —                       | —                        | —                  | —                     | 249,294                          |
| Due from component units                          | 34,083                  | —                        | 34,083             | —                     | —                                |
| Internal balances                                 | (600,811)               | 600,811                  | —                  | —                     | —                                |
| Prepaid items                                     | 141,708                 | 114,882                  | 256,590            | —                     | —                                |
| Deferred charges                                  | 288,692                 | 296,312                  | 585,004            | —                     | —                                |
| Restricted assets:                                |                         |                          |                    |                       |                                  |
| Cash and cash equivalents                         | 8,588,886               | 476,929                  | 9,065,815          | —                     | —                                |
| Capital assets (net of accumulated depreciation): |                         |                          |                    |                       |                                  |
| Land  | 2,394,845               | —                        | 2,394,845          | —                     | —                                |
| Buildings and systems                             | 14,034,836              | 15,376,276               | 29,411,112         | —                     | —                                |
| Improvements other than buildings                 | 2,164                   | 309,829                  | 311,993            | —                     | —                                |
| Machinery and equipment                           | 6,570,375               | 5,271,412                | 11,841,787         | 31,806                | —                                |
| Bridges   | 1,308,467               | —                        | 1,308,467          | —                     | —                                |
| Construction in progress                          | 547,280                 | 15,330                   | 562,610            | —                     | —                                |
| Agricultural easements                            | 4,469,193               | —                        | 4,469,193          | —                     | —                                |
| Other assets                                      | 40,224                  | —                        | 40,224             | —                     | —                                |
| Total assets                                      | <u>79,023,814</u>       | <u>33,463,094</u>        | <u>112,486,908</u> | <u>454,508</u>        | <u>467,778</u>                   |
| <b>LIABILITIES</b>                                |                         |                          |                    |                       |                                  |
| Accounts payable and other current liabilities    | 8,803,863               | 747,225                  | 9,551,088          | 11,379                | 5,745                            |
| Accrued payroll                                   | 1,342,111               | 274,734                  | 1,616,845          | 6,433                 | —                                |
| Due to primary government                         | —                       | —                        | —                  | 34,083                | —                                |
| Due to other governments                          | 567,110                 | —                        | 567,110            | —                     | —                                |
| Accrued interest payable                          | 247,018                 | 104,373                  | 351,391            | —                     | —                                |
| Unearned revenues                                 | 4,031,532               | 37,884                   | 4,069,416          | 23,484                | —                                |
| Funds held as fiduciary                           | 521,446                 | 353,059                  | 874,505            | —                     | —                                |
| Noncurrent liabilities:                           |                         |                          |                    |                       |                                  |
| Due in less than one year:                        |                         |                          |                    |                       |                                  |
| Capital lease payable                             | 28,027                  | 8,378                    | 36,405             | —                     | —                                |
| General obligation bonds payable                  | 1,319,269               | 405,731                  | 1,725,000          | —                     | —                                |
| General obligation notes payable                  | 121,032                 | 673,969                  | 795,001            | —                     | —                                |
| Sick and vacation accrual                         | 147,894                 | 75,168                   | 223,062            | 2,117                 | —                                |
| Workers' compensation claims payable              | —                       | 548,431                  | 548,431            | —                     | —                                |
| Due in more than one year:                        |                         |                          |                    |                       |                                  |
| Capital lease payable                             | 40,055                  | —                        | 40,055             | —                     | —                                |
| General obligation bonds payable                  | 18,181,982              | 9,601,072                | 27,783,054         | —                     | —                                |
| General obligation notes payable                  | 2,178,549               | 12,206,020               | 14,384,569         | —                     | —                                |
| Sick and vacation accrual                         | 3,099,229               | 780,191                  | 3,879,420          | 46,289                | —                                |
| Workers' compensation claims payable              | —                       | 1,031,170                | 1,031,170          | —                     | —                                |
| Total liabilities                                 | <u>40,629,117</u>       | <u>26,847,405</u>        | <u>67,476,522</u>  | <u>123,785</u>        | <u>5,745</u>                     |
| <b>NET ASSETS</b>                                 |                         |                          |                    |                       |                                  |
| Invested in capital assets, net of related debt   | 17,291,386              | (1,304,478)              | 15,986,908         | 31,806                | —                                |
| Restricted net assets for:                        |                         |                          |                    |                       |                                  |
| Capital projects                                  | 4,848,590               | —                        | 4,848,590          | —                     | —                                |
| Conservation                                      | 5,621,412               | —                        | 5,621,412          | —                     | —                                |
| Community redevelopment and housing               | 8,908                   | —                        | 8,908              | —                     | —                                |
| Economic development                              | 499,637                 | —                        | 499,637            | —                     | —                                |
| Help America Vote Act                             | 97,177                  | —                        | 97,177             | —                     | —                                |
| Human services                                    | 2,212,320               | —                        | 2,212,320          | —                     | —                                |
| Public safety                                     | 526,268                 | —                        | 526,268            | —                     | —                                |
| Records improvement                               | 1,007,438               | —                        | 1,007,438          | —                     | —                                |
| Roads and bridges                                 | 734,079                 | —                        | 734,079            | —                     | —                                |
| Unrestricted                                      | 5,547,482               | 7,920,167                | 13,467,649         | 298,917               | 462,033                          |
| Total net assets                                  | <u>\$ 38,394,697</u>    | <u>6,615,689</u>         | <u>45,010,386</u>  | <u>330,723</u>        | <u>462,033</u>                   |

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



**STATEMENT OF ACTIVITIES**

*For the year ended December 31, 2006*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

| 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 - administrative         | \$ 11,265,601         | (1,199,416)      | 3,687,016            | 1,090,729                          | —                                | (5,288,440)                                     | —                        | (5,288,440)         | —                     | —                                |
| General government - judicial               | 14,431,904            | 119,616          | 2,108,136            | 2,413,569                          | —                                | (10,029,815)                                    | —                        | (10,029,815)        | —                     | —                                |
| Public safety                               | 15,368,282            | —                | 2,512,689            | 1,738,660                          | 16,527                           | (11,100,406)                                    | —                        | (11,100,406)        | —                     | —                                |
| Roads and bridge maintenance                | 1,472,466             | 23,595           | 6,680                | 1,469,833                          | 2,581                            | (16,967)  | —                        | (16,967)            | —                     | —                                |
| Solid waste management                      | 567,813               | 56,672           | 1,037,382            | 93,749                             | —                                | 506,646   | —                        | 506,646             | —                     | —                                |
| Human services:                             |                       |                  |                      |                                    |                                  |   |                          |                     |                       |                                  |
| Mental health/mental retardation            | 32,343,624            | 197,169          | 189,201              | 31,325,889                         | —                                | (1,025,703)                                     | —                        | (1,025,703)         | —                     | —                                |
| HealthChoices                               | 22,678,241            | —                | —                    | 22,660,910                         | —                                | (17,331)  | —                        | (17,331)            | —                     | —                                |
| Children and youth                          | 12,015,385            | 172,451          | 424,825              | 9,688,684                          | —                                | (2,074,327)                                     | —                        | (2,074,327)         | —                     | —                                |
| Food and shelter                            | 4,379,791             | —                | 733,066              | 3,840,332                          | —                                | 193,607   | —                        | 193,607             | —                     | —                                |
| Office of aging                             | 4,485,342             | 148,852          | 546,084              | 3,851,537                          | —                                | (236,573)                                       | —                        | (236,573)           | —                     | —                                |
| Other                                       | 3,879,024             | 87,106           | 337,173              | 3,296,947                          | —                                | (332,010)                                       | —                        | (332,010)           | —                     | —                                |
| Culture and recreation                      | 45,273                | —                | 12,426               | —                                  | —                                | (32,847)  | —                        | (32,847)            | —                     | —                                |
| Conservation                                | 711,848               | —                | 61,522               | 57,060                             | 149,604                          | (443,662)                                       | —                        | (443,662)           | —                     | —                                |
| Community redevelopment and housing         | 379,553               | —                | 294,109              | —                                  | —                                | (85,444)  | —                        | (85,444)            | —                     | —                                |
| Economic development and assistance         | 4,437,310             | —                | 63,418               | 3,000,109                          | —                                | (1,373,783)                                     | —                        | (1,373,783)         | —                     | —                                |
| Interest on long-term debt                  | 661,412               | —                | —                    | —                                  | —                                | (661,412)                                       | —                        | (661,412)           | —                     | —                                |
| <b>Total governmental activities</b>        | <b>129,122,869</b>    | <b>(393,955)</b> | <b>12,013,727</b>    | <b>84,528,008</b>                  | <b>168,712</b>                   | <b>(32,018,467)</b>                             | <b>—</b>                 | <b>(32,018,467)</b> | <b>—</b>              | <b>—</b>                         |
| Business-type activities:                   |                       |                  |                      |                                    |                                  |   |                          |                     |                       |                                  |
| County nursing home                         | 21,604,381            | 310,005          | 21,414,687           | 7,410                              | —                                | —   | (492,289)                | (492,289)           | —                     | —                                |
| Early Learning Center                       | 456,022               | —                | 369,206              | 13,020                             | —                                | —   | (73,796)                 | (73,796)            | —                     | —                                |
| Emergency telephone                         | 4,817,157             | —                | 1,971,210            | 1,799,540                          | —                                | —   | (1,046,407)              | (1,046,407)         | —                     | —                                |
| Hazardous materials protection              | 223,403               | —                | 50,901               | 27,834                             | —                                | —   | (144,668)                | (144,668)           | —                     | —                                |
| Transportation services                     | 1,889,158             | 83,950           | 841,716              | 845,171                            | 76,263                           | —   | (209,958)                | (209,958)           | —                     | —                                |
| Workers' compensation                       | 450,000               | —                | 450,000              | —                                  | —                                | —   | —                        | —                   | —                     | —                                |
| <b>Total business-type activities</b>       | <b>29,440,121</b>     | <b>393,955</b>   | <b>25,097,720</b>    | <b>2,692,975</b>                   | <b>76,263</b>                    | <b>—</b>  | <b>(1,967,118)</b>       | <b>(1,967,118)</b>  | <b>—</b>              | <b>—</b>                         |
| <b>Total primary government</b>             | <b>\$ 158,562,990</b> | <b>—</b>         | <b>37,111,447</b>    | <b>87,220,983</b>                  | <b>244,975</b>                   | <b>(32,018,467)</b>                             | <b>(1,967,118)</b>       | <b>(33,985,585)</b> | <b>—</b>              | <b>—</b>                         |
| <b>Component units:</b>                     |                       |                  |                      |                                    |                                  |   |                          |                     |                       |                                  |
| Conservation District                       | \$ 634,546            | —                | 296,807              | 389,162                            | —                                | —   | —                        | —                   | 51,423                | —                                |
| Industrial Development Authority            | 31,071                | —                | 8,341                | —                                  | —                                | —   | —                        | —                   | —                     | (22,730)                         |
| <b>Total component units</b>                | <b>\$ 665,617</b>     | <b>—</b>         | <b>305,148</b>       | <b>389,162</b>                     | <b>—</b>                         | <b>—</b>  | <b>—</b>                 | <b>—</b>            | <b>51,423</b>         | <b>(22,730)</b>                  |
| General revenues:                           |                       |                  |                      |                                    |                                  |   |                          |                     |                       |                                  |
| Real estate taxes                           | —                     | —                | —                    | —                                  | —                                | 35,211,322                                      | —                        | 35,211,322          | —                     | —                                |
| Per capita taxes                            | —                     | —                | —                    | —                                  | —                                | 610,226   | —                        | 610,226             | —                     | —                                |
| Hotel taxes                                 | —                     | —                | —                    | —                                  | —                                | 950,036   | —                        | 950,036             | —                     | —                                |
| Unrestricted investment earnings            | —                     | —                | —                    | —                                  | —                                | 2,403,031                                       | 344,333                  | 2,747,364           | 12,677                | 6,588                            |
| Transfers                                   | —                     | —                | —                    | —                                  | —                                | (3,770,245)                                     | 3,770,245                | —                   | —                     | —                                |
| <b>Total general revenues and transfers</b> | <b>—</b>              | <b>—</b>         | <b>—</b>             | <b>—</b>                           | <b>—</b>                         | <b>35,404,370</b>                               | <b>4,114,578</b>         | <b>39,518,948</b>   | <b>12,677</b>         | <b>6,588</b>                     |
| Change in net assets                        | —                     | —                | —                    | —                                  | —                                | 3,385,903                                       | 2,147,460                | 5,533,363           | 64,100                | (16,142)                         |
| Net assets-beginning, as restated           | —                     | —                | —                    | —                                  | —                                | 35,008,794                                      | 4,468,229                | 39,477,023          | 266,623               | 478,175                          |
| Net assets-ending                           | —                     | —                | —                    | —                                  | —                                | \$ 38,394,697                                   | 6,615,689                | 45,010,386          | 330,723               | 462,033                          |

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

# BALANCE SHEET

## Governmental Funds

December 31, 2006

### COUNTY OF CUMBERLAND, PENNSYLVANIA

|  | General<br>Fund | Mental Health/<br>Mental<br>Retardation | Children and<br>Youth | HealthChoices-<br>Cumberland<br>County | Other<br>Non-major<br>Funds | Total      |
|--|-----------------|---|-----------------------|--|-----------------------------|------------|
| <b>Assets</b>                          |                 |   |                       |  |                             |            |
| Cash and cash equivalents              | \$ 16,514,707   | 7,279,698                               | 300                   | 87,361                                 | 4,800,788                   | 28,682,854 |
| Investments                            | 326,498         | —                                       | —                     | —                                      | 1,701,700                   | 2,028,198  |
| Receivables (net of allowance):        |                 |   |                       |  |                             |            |
| Taxes                                  | 1,449,969       | —                                       | —                     | —                                      | —                           | 1,449,969  |
| Due from other governments             | 304,614         | 359,290                                 | 4,358,621             | —                                      | 2,487,119                   | 7,509,644  |
| Accounts receivable                    | 349,443         | 283,079                                 | —                     | —                                      | 378,566                     | 1,011,088  |
| Due from other funds                   | 2,463,413       | 259,382                                 | —                     | 9,264                                  | 1,623,896                   | 4,355,955  |
| Due from component unit                | 33,953          | —                                       | —                     | —                                      | —                           | 33,953     |
| Prepaid items                          | 123,262         | —                                       | —                     | —                                      | 18,447                      | 141,709    |
| Restricted cash                        | 3,647,415       | —                                       | —                     | —                                      | 4,941,471                   | 8,588,886  |
| Other assets                           | 40,208          | —                                       | —                     | —                                      | —                           | 40,208     |
| Total assets                           | \$ 25,253,482   | 8,181,449                               | 4,358,921             | 96,625                                 | 15,951,987                  | 53,842,464 |
| <b>Liabilities and fund balances</b>   |                 |   |                       |  |                             |            |
| Liabilities:                           |                 |   |                       |  |                             |            |
| Accounts payable                       | \$ 1,565,505    | 4,748,456                               | 952,606               | 4,242                                  | 1,533,051                   | 8,803,860  |
| Accrued liabilities and withholdings   | 1,172,334       | 35,678                                  | 44,686                | —                                      | 89,414                      | 1,342,112  |
| Due to other funds                     | —               | —                                       | 3,356,387             | —                                      | 1,525,867                   | 4,882,254  |
| Due to other governments               | 472,530         | —                                       | —                     | —                                      | —                           | 472,530    |
| Deferred taxes                         | 1,231,969       | —                                       | —                     | —                                      | —                           | 1,231,969  |
| Deferred revenue                       | 203,757         | 3,397,315                               | 5,242                 | 92,383                                 | 332,838                     | 4,031,535  |
| Funds held as fiduciary                | 513,067         | —                                       | —                     | —                                      | 8,381                       | 521,448    |
| Total liabilities                      | 5,159,162       | 8,181,449                               | 4,358,921             | 96,625                                 | 3,489,551                   | 21,285,708 |
| Fund balances:                         |                 |   |                       |  |                             |            |
| Reserved for:                          |                 |   |                       |  |                             |            |
| Prepaid items                          | 123,262         | —                                       | —                     | —                                      | —                           | 123,262    |
| Row office automation                  | 58,253          | —                                       | —                     | —                                      | —                           | 58,253     |
| Register of Wills-Act 34               | 20,005          | —                                       | —                     | —                                      | —                           | 20,005     |
| Open space/farmland preservation       | 3,082,549       | —                                       | —                     | —                                      | —                           | 3,082,549  |
| Offenders' supervision                 | 475,064         | —                                       | —                     | —                                      | —                           | 475,064    |
| Criminal investigation                 | 6,228           | —                                       | —                     | —                                      | —                           | 6,228      |
| County elections                       | 97,177          | —                                       | —                     | —                                      | —                           | 97,177     |
| Unreserved:                            |                 |   |                       |  |                             |            |
| Designated:                            |                 |   |                       |  |                             |            |
| Future capital projects                | 2,500,000       | —                                       | —                     | —                                      | —                           | 2,500,000  |
| Future debt service arbitrage payments | 225,000         | —                                       | —                     | —                                      | —                           | 225,000    |
| Prison canteen                         | 101,552         | —                                       | —                     | —                                      | —                           | 101,552    |
| Farmland preservation                  | 365,078         | —                                       | —                     | —                                      | —                           | 365,078    |
| Undesignated, reported in:             |                 |   |                       |  |                             |            |
| General fund                           | 13,040,152      | —                                       | —                     | —                                      | —                           | 13,040,152 |
| Special revenue funds                  | —               | —                                       | —                     | —                                      | 7,611,520                   | 7,611,520  |
| Debt service fund                      | —               | —                                       | —                     | —                                      | 2,323                       | 2,323      |
| Capital project funds                  | —               | —                                       | —                     | —                                      | 4,848,593                   | 4,848,593  |
| Total fund balances                    | 20,094,320      | —                                       | —                     | —                                      | 12,462,436                  | 32,556,756 |
| Total liabilities and fund balances    | \$ 25,253,482   | 8,181,449                               | 4,358,921             | 96,625                                 | 15,951,987                  | 53,842,464 |

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS**

*December 31, 2006*

COUNTY OF CUMBERLAND, PENNSYLVANIA

|   |    |                   |
|---|----|-------------------|
| Total fund balances-governmental funds  | \$ | 32,556,756        |
| Amount reported for governmental activities in the statement of net assets are different because:   |    |                   |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.   |    | 29,327,160        |
| Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.   |    | 1,659,509         |
| 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. |    | 377,724           |
| Internal service fund used by management to charge the costs of the self-insured workers' compensation to individual funds.   |    | (74,365)          |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.  |    |                   |
| Long term liabilities consist of:   |    |                   |
| Bonds payable   |    | (19,593,108)      |
| Notes payable   |    | (2,296,756)       |
| Sick and vacation payable   |    | (3,247,123)       |
| Capital lease payable   |    | (68,082)          |
| Interest accrued on long-term liabilities is not due and payable in the current period and, therefore is not reported in the funds.   |    | (247,018)         |
| Net assets of governmental activities   | \$ | <u>38,394,697</u> |

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
Governmental Funds**

*For the year ended December 31, 2006*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

|  | <b>General<br/>Fund</b> | <b>Mental Health/<br/>Mental<br/>Retardation</b> | <b>Children and<br/>Youth</b> | <b>HealthChoices-<br/>Cumberland<br/>County</b> | <b>Other<br/>Non-major<br/>Funds</b> | <b>Total</b>       |
|--|-------------------------|--|-------------------------------|---|--------------------------------------|--------------------|
| <b>Revenues:</b>   |                         |  |                               |   |                                      |                    |
| Taxes  | \$ 35,546,564           | —  | —                             | —   | 950,036                              | 36,496,600         |
| Licenses and permits   | 96,635                  | —  | —                             | —   | 12,410                               | 109,045            |
| Grants   | 6,334,107               | 31,315,243                                       | 9,686,487                     | 22,660,910                                      | 14,477,798                           | 84,474,545         |
| County charges   | 7,202,993               | 74,300   | 424,825                       | —   | 2,885,162                            | 10,587,280         |
| Court costs, fines and forfeitures                           | 1,063,127               | —  | —                             | —   | 305,909                              | 1,369,036          |
| Interest   | 1,403,844               | 477,832  | —                             | 17,419  | 503,935                              | 2,403,030          |
| Payment in lieu of taxes                                     | 83,160                  | —  | —                             | —   | —                                    | 83,160             |
| Contributions and other                                      | 158,173                 | 125,546  | 2,198                         | —   | 869,778                              | 1,155,695          |
| Total revenues   | <u>51,888,603</u>       | <u>31,992,921</u>                                | <u>10,113,510</u>             | <u>22,678,329</u>                               | <u>20,005,028</u>                    | <u>136,678,391</u> |
| <b>Expenditures:</b>   |                         |  |                               |   |                                      |                    |
| Current:   |                         |  |                               |   |                                      |                    |
| General government – administrative                          | 8,655,123               | —  | —                             | —   | 183,872                              | 8,838,995          |
| General government – judicial                                | 11,654,502              | —  | —                             | —   | 3,396,388                            | 15,050,890         |
| Public safety  | 13,733,295              | —  | —                             | —   | —                                    | 13,733,295         |
| Public works and enterprises                                 | —                       | —  | —                             | —   | 827,067                              | 827,067            |
| Human services   | 573,640                 | 32,499,919                                       | 12,147,306                    | 22,678,241                                      | 12,715,479                           | 80,614,585         |
| Culture and recreation                                       | 44,199                  | —  | —                             | —   | 18,978                               | 63,177             |
| Conservation and development                                 | 434,666                 | —  | —                             | —   | 1,148,567                            | 1,583,233          |
| Economic development and assistance                          | 3,156,937               | —  | —                             | —   | 1,173,147                            | 4,330,084          |
| Debt service:  |                         |  |                               |   |                                      |                    |
| Principal retirement   | —                       | —  | —                             | —   | 1,433,738                            | 1,433,738          |
| Debt interest  | —                       | —  | —                             | —   | 479,186                              | 479,186            |
| Bond discount  | —                       | —  | —                             | —   | 137,369                              | 137,369            |
| Capital outlay   | 4,419,234               | 59,828   | 22,401                        | —   | 2,699,165                            | 7,200,628          |
| Payments to other governments                                | 345,301                 | —  | —                             | —   | 367,857                              | 713,158            |
| Total expenditures   | <u>43,016,897</u>       | <u>32,559,747</u>                                | <u>12,169,707</u>             | <u>22,678,241</u>                               | <u>24,580,813</u>                    | <u>135,005,405</u> |
| Excess (deficiency) of revenues over<br>(under) expenditures | <u>8,871,706</u>        | <u>(566,826)</u>                                 | <u>(2,056,197)</u>            | <u>88</u>                                       | <u>(4,575,785)</u>                   | <u>1,672,986</u>   |
| <b>Other financing sources (uses):</b>                       |                         |  |                               |   |                                      |                    |
| Transfers in   | 456,457                 | 583,257  | 2,130,384                     | —   | 4,691,184                            | 7,861,282          |
| Transfers out  | (9,860,732)             | (16,431)   | (74,187)                      | (88)  | (1,648,125)                          | (11,599,563)       |
| Face amount of long-term debt issued                         | 2,852,724               | —  | —                             | —   | 7,047,276                            | 9,900,000          |
| Bond discount  | —                       | —  | —                             | —   | (52,511)                             | (52,511)           |
| Proceeds from capital leases                                 | —                       | —  | —                             | —   | 50,519                               | 50,519             |
| Total other financing sources (uses)                         | <u>(6,551,551)</u>      | <u>566,826</u>                                   | <u>2,056,197</u>              | <u>(88)</u>                                     | <u>10,088,343</u>                    | <u>6,159,727</u>   |
| Net change in fund balances                                  | 2,320,155               | —  | —                             | —   | 5,512,558                            | 7,832,713          |
| Fund balances, beginning of year, as restated                | 17,774,165              | —  | —                             | —   | 6,949,878                            | 24,724,043         |
| Fund balances, end of year                                   | <u>\$ 20,094,320</u>    | <u>—</u>   | <u>—</u>                      | <u>—</u>  | <u>12,462,436</u>                    | <u>32,556,756</u>  |

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

*For the year ended December 31, 2006*

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COUNTY OF CUMBERLAND, PENNSYLVANIA

|  |    |                         |
|--|----|-------------------------|
| Net change in fund balances-total governmental funds   | \$ | 7,832,713               |
| 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. |    | 5,215,047               |
| The net effect involving the disposal of capital assets and the capitalization of construction in progress.  |    | (193,661)               |
| Deferred revenues that do not provide current financial resources (real estate and per capita taxes) and revenues which are not recognized as available (court costs and fines) in the governmental funds but are earned in the statement of activities.   |    | (771,134)               |
| 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. |    | (8,516,781)             |
| 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.   |    | 162,048                 |
| 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.   |    | (182,244)               |
| Governmental funds do not recognize interest on long term debt until legally due, while the statement of net assets accrues for interest payable.  |    | (143,273)               |
| Internal service fund are used by management to charge the cost of workers' compensation to individual funds.  |    | (16,812)                |
| Change in net assets of governmental activities  | \$ | <u><u>3,385,903</u></u> |

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



**STATEMENT OF NET ASSETS**  
**Proprietary Funds**

*December 31, 2006*

COUNTY OF CUMBERLAND, PENNSYLVANIA

|  | Business-type Activities |                        |                           |                   | Internal<br>Service Fund<br>Workers'<br>Compensation |
|--|--------------------------|------------------------|---------------------------|-------------------|--|
|  | Enterprise Funds         |                        |                           | Totals            |  |
|  | County<br>Nursing Home   | Emergency<br>Telephone | Other Non-<br>major Funds |                   |  |
| <b>Assets</b>                                |                          |                        |                           |                   |  |
| Current assets:                              |                          |                        |                           |                   |  |
| Cash and cash equivalents                    | \$ 3,528,884             | 639,288                | 200                       | 4,168,372         | 1,738,627  |
| Restricted cash:                             |                          |                        |                           |                   |  |
| Patient Funds                                | 155,396                  | —                      | —                         | 155,396           | —  |
| Bond proceeds                                | —                        | 321,533                | —                         | 321,533           | —  |
| Due from other funds                         | —                        | 423,938                | 170,173                   | 594,111           | —  |
| Accounts receivable (net of allowance):      |                          |                        |                           |                   |  |
| Patient accounts receivable                  | 4,030,295                | —                      | —                         | 4,030,295         | —  |
| Customer accounts receivable                 | —                        | 957,338                | 69,630                    | 1,026,968         | 7,000  |
| Due from other governments                   | —                        | 30,051                 | —                         | 30,051            | —  |
| Prepaid items                                | 7,804                    | 107,078                | —                         | 114,882           | —  |
| Total current assets                         | <u>7,722,379</u>         | <u>2,479,226</u>       | <u>240,003</u>            | <u>10,441,608</u> | <u>1,745,627</u>                                     |
| Noncurrent assets:                           |                          |                        |                           |                   |  |
| Deferred charges                             | 175,193                  | 121,119                | —                         | 296,312           | —  |
| Capital assets, net of depreciation          | 14,137,030               | 5,474,339              | 1,361,478                 | 20,972,847        | —  |
| Total noncurrent assets                      | <u>14,312,223</u>        | <u>5,595,458</u>       | <u>1,361,478</u>          | <u>21,269,159</u> | <u>—</u>   |
| Total assets                                 | <u>22,034,602</u>        | <u>8,074,684</u>       | <u>1,601,481</u>          | <u>31,710,767</u> | <u>1,745,627</u>                                     |
| <b>Liabilities</b>                           |                          |                        |                           |                   |  |
| Current liabilities:                         |                          |                        |                           |                   |  |
| Accounts payable                             | 651,467                  | 73,688                 | 18,912                    | 744,067           | 3,160  |
| Accrued liabilities and withholdings:        |                          |                        |                           |                   |  |
| Accrued payroll                              | 219,954                  | 37,292                 | 17,487                    | 274,733           | —  |
| Accrued interest                             | 50,907                   | 53,466                 | —                         | 104,373           | —  |
| Due to other funds                           | 67,526                   | —                      | 286                       | 67,812            | —  |
| Unearned revenue                             | —                        | —                      | 37,884                    | 37,884            | —  |
| Funds held as fiduciary                      | 353,059                  | —                      | —                         | 353,059           | —  |
| Capital lease payable                        | —                        | —                      | 8,378                     | 8,378             | —  |
| General obligation bonds payable             | 241,121                  | 164,609                | —                         | 405,730           | —  |
| General obligation notes payable             | 308,409                  | 365,560                | —                         | 673,969           | —  |
| Workers' compensation claims payable         | —                        | —                      | —                         | —                 | 548,431  |
| Sick and vacation accrual                    | 60,064                   | 7,643                  | 7,461                     | 75,168            | —  |
| Total current liabilities                    | <u>1,952,507</u>         | <u>702,258</u>         | <u>90,408</u>             | <u>2,745,173</u>  | <u>551,591</u>                                       |
| Noncurrent liabilities:                      |                          |                        |                           |                   |  |
| Due in more than one year:                   |                          |                        |                           |                   |  |
| General obligation bonds payable             | 7,324,461                | 2,276,611              | —                         | 9,601,072         | —  |
| General obligation notes payable             | 5,502,534                | 6,703,486              | —                         | 12,206,020        | —  |
| Workers' compensation claims payable         | —                        | —                      | —                         | —                 | 1,031,170  |
| Sick and vacation accrual                    | 496,682                  | 227,495                | 56,014                    | 780,191           | —  |
| Total noncurrent liabilities                 | <u>13,323,677</u>        | <u>9,207,592</u>       | <u>56,014</u>             | <u>22,587,283</u> | <u>1,031,170</u>                                     |
| Total liabilities                            | <u>15,276,184</u>        | <u>9,909,850</u>       | <u>146,422</u>            | <u>25,332,456</u> | <u>1,582,761</u>                                     |
| <b>Net assets</b>                            |                          |                        |                           |                   |  |
| Invested in capital assets, net related debt | 935,698                  | (3,593,276)            | 1,353,100                 | (1,304,478)       | —  |
| Unrestricted                                 | 5,822,720                | 1,758,110              | 101,959                   | 7,682,789         | 162,866  |
| Total net assets                             | <u>\$ 6,758,418</u>      | <u>(1,835,166)</u>     | <u>1,455,059</u>          | <u>6,378,311</u>  | <u>162,866</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 net assets of the internal service fund are included in business-type activities in the statement of net assets.

162,866

Adjustment to reflect the consolidation of internal service activity related to governmental and component unit activities.

74,512

Net assets of business-type activities

\$ 6,615,689

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS**

**Proprietary Funds**

*For the year ended December 31, 2006*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

|   | <b>Business-type Activities</b> |                                |                                   |                    | <b>Internal<br/>Service Fund<br/>Workers'<br/>Compensation</b> |
|---|---------------------------------|--------------------------------|-----------------------------------|--------------------|--|
|   | <b>Enterprise Funds</b>         |                                |                                   | <b>Totals</b>      |  |
|   | <b>County<br/>Nursing Home</b>  | <b>Emergency<br/>Telephone</b> | <b>Other Non-<br/>major Funds</b> |                    |  |
| <b>Operating revenues:</b>                    |                                 |                                |                                   |                    |  |
| Charges for sales and services:               |                                 |                                |                                   |                    |  |
| County charges                                | \$ 21,379,418                   | 1,971,450                      | 1,263,003                         | 24,613,871         | 450,000  |
| Rentals and other revenues                    | 37,122                          | —                              | —                                 | 37,122             | —  |
| Total operating revenues                      | <u>21,416,540</u>               | <u>1,971,450</u>               | <u>1,263,003</u>                  | <u>24,650,993</u>  | <u>450,000</u>   |
| <b>Operating expenses:</b>                    |                                 |                                |                                   |                    |  |
| Patient/client services                       | 16,898,970                      | 3,455,806                      | 2,337,154                         | 22,691,930         | 117,444  |
| Depreciation                                  | 972,597                         | 826,323                        | 312,350                           | 2,111,270          | —  |
| Loss and loss adjusting                       | —                               | —                              | —                                 | —                  | 371,224  |
| Administrative                                | 3,514,158                       | 136,842                        | —                                 | 3,651,000          | —  |
| Total operating expenses                      | <u>21,385,725</u>               | <u>4,418,971</u>               | <u>2,649,504</u>                  | <u>28,454,200</u>  | <u>488,668</u>   |
| Operating income (loss)                       | <u>30,815</u>                   | <u>(2,447,521)</u>             | <u>(1,386,501)</u>                | <u>(3,803,207)</u> | <u>(38,668)</u>  |
| <b>Nonoperating revenues (expenses):</b>      |                                 |                                |                                   |                    |  |
| Grants  | 4,884                           | 1,799,300                      | 961,108                           | 2,765,292          | —  |
| Contributed capital                           | 675                             | —                              | 26,921                            | 27,596             | —  |
| Interest income                               | 235,633                         | 27,608                         | 823                               | 264,064            | 80,272   |
| Interest expense                              | (508,274)                       | (361,728)                      | (1,186)                           | (871,188)          | —  |
| Payment to municipalities                     | —                               | (31,841)                       | —                                 | (31,841)           | —  |
| Total net nonoperating<br>revenues (expenses) | <u>(267,082)</u>                | <u>1,433,339</u>               | <u>987,666</u>                    | <u>2,153,923</u>   | <u>80,272</u>  |
| Income (loss) before<br>operating transfers   | <u>(236,267)</u>                | <u>(1,014,182)</u>             | <u>(398,835)</u>                  | <u>(1,649,284)</u> | <u>41,604</u>  |
| Transfers in                                  | 151,329                         | 3,254,160                      | 341,535                           | 3,747,024          | —  |
| Transfers out                                 | —                               | (8,743)                        | —                                 | (8,743)            | —  |
| Change in net assets                          | <u>(84,938)</u>                 | <u>2,231,235</u>               | <u>(57,300)</u>                   | <u>2,088,997</u>   | <u>41,604</u>  |
| Total net assets - beginning                  | 6,843,356                       | (4,066,401)                    | 1,512,359                         |                    | 121,262  |
| Total net assets - ending                     | <u>\$ 6,758,418</u>             | <u>(1,835,166)</u>             | <u>1,455,059</u>                  |                    | <u>162,866</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. | 41,604              |
| Adjustment to reflect the consolidation of internal service fund activity related to governmental and component unit activities.  | <u>16,859</u>       |
| Change in net assets of business-type activities  | <u>\$ 2,147,460</u> |

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

# STATEMENT OF CASH FLOWS

## Proprietary Funds

*For the year ended December 31, 2006*

COUNTY OF CUMBERLAND, PENNSYLVANIA

|   | Business-type Activities |             |             |              |              |
|---|--------------------------|-------------|-------------|--------------|--------------|
|   | Enterprise Funds         |             |             |              | Internal     |
|   | County                   | Emergency   | Other Non-  | Totals       | Service Fund |
| Nursing Home  | Telephone                | major Funds |             | Workers'     |              |
|   |                          |             |             | Compensation |              |
| <b>Cash flows from operating activities:</b>  |                          |             |             |              |              |
| Cash received on surcharges   | \$ —                     | 1,975,692   | —           | 1,975,692    | —            |
| Cash received on county charges   | 19,534,398               | —           | 1,260,386   | 20,794,784   | 447,000      |
| Payments to vendors   | (4,701,998)              | (1,084,162) | (1,244,279) | (7,030,439)  | —            |
| Payments to employees   | (14,904,702)             | (2,572,616) | (1,174,749) | (18,652,067) | (574,627)    |
| Net cash used in operating activities   | (72,302)                 | (1,681,086) | (1,158,642) | (2,912,030)  | (127,627)    |
| <b>Cash flows from noncapital financing activities:</b>   |                          |             |             |              |              |
| Subsidy from federal/state grants   | 4,885                    | —           | 806,540     | 811,425      | —            |
| Payments to municipalities  | —                        | (31,841)    | —           | (31,841)     | —            |
| Transfers from other funds  | —                        | 2,480,322   | 235,436     | 2,715,758    | —            |
| Proceeds from tax anticipation notes  | 13,797,794               | —           | —           | 13,797,794   | —            |
| Principal paid on tax anticipation notes  | (13,797,794)             | —           | —           | (13,797,794) | —            |
| Net cash provided by noncapital financing activities  | 4,885                    | 2,448,481   | 1,041,976   | 3,495,342    | —            |
| <b>Cash flows from capital and related financing activities:</b>                                      |                          |             |             |              |              |
| Contributed capital   | 675                      | —           | —           | 675          | —            |
| Subsidy from federal/state grants   | —                        | 917,654     | 302,727     | 1,220,381    | —            |
| Transfers to other funds  | —                        | (8,743)     | —           | (8,743)      | —            |
| Purchase of capital assets  | (167,177)                | (368,242)   | (173,937)   | (709,356)    | —            |
| Principal paid on capital debt  | (535,510)                | (514,738)   | (11,761)    | (1,062,009)  | —            |
| Interest paid on capital debt   | (495,668)                | (412,418)   | (1,186)     | (909,272)    | —            |
| Net cash provided by (used in) capital financing activities   | (1,197,680)              | (386,487)   | 115,843     | (1,468,324)  | —            |
| <b>Cash flows from investing activities:</b>  |                          |             |             |              |              |
| Proceeds from the sale and maturities of investments  | 65,849                   | 566,885     | —           | 632,734      | —            |
| Purchase of investments   | (463)                    | (20,070)    | —           | (20,533)     | —            |
| Investment income received  | 235,634                  | 27,608      | 823         | 264,065      | 80,272       |
| Net cash provided by investing activities   | 301,020                  | 574,423     | 823         | 876,266      | 80,272       |
| Net increase (decrease) in cash and cash equivalents  | (964,077)                | 955,331     | —           | (8,746)      | (47,355)     |
| Cash and cash equivalents, January 1  | 4,648,357                | 5,490       | 200         | 4,654,047    | 1,785,982    |
| Cash and cash equivalents, December 31  | \$ 3,684,280             | 960,821     | 200         | 4,645,301    | 1,738,627    |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                          |             |             |              |              |
| Operating income (loss)   | \$ 30,815                | (2,447,521) | (1,386,501) | (3,803,207)  | (38,668)     |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities:            |                          |             |             |              |              |
| Depreciation expense  | 972,597                  | 826,323     | 312,350     | 2,111,270    | —            |
| Loss (gain) on disposal of capital assets   | (669)                    | 7,218       | 2,592       | 9,141        | —            |
| Changes in assets and liabilities in:   |                          |             |             |              |              |
| Accounts receivable   | (1,359,200)              | 1,862       | —           | (1,357,338)  | (3,000)      |

(Continued)

# STATEMENT OF CASH FLOWS

## Proprietary Funds

*For the year ended December 31, 2006*

COUNTY OF CUMBERLAND, PENNSYLVANIA

|   | Business-type Activities |                    |                    |                    |                  |
|---|--------------------------|--------------------|--------------------|--------------------|------------------|
|   | Enterprise Funds         |                    |                    |                    | Internal         |
|   | County                   | Emergency          | Other Non-         | Totals             | Service Fund     |
| Nursing Home  | Telephone                | major Funds        |                    | Workers'           |                  |
|   |                          |                    |                    | Compensation       |                  |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities (continued):</b> |                          |                    |                    |                    |                  |
| Customer accounts receivable  | \$ —                     | —                  | (2,618)            | (2,618)            | —                |
| Prepaid items   | 25,125                   | (23,480)           | —                  | 1,645              | —                |
| Deferred charges  | 13,756                   | 9,766              | —                  | 23,522             | —                |
| Accounts payable  | 255,488                  | (56,337)           | (28,115)           | 171,036            | (48,771)         |
| Accrued liabilities and withholdings  | (12,830)                 | 1,083              | 7,331              | (4,416)            | —                |
| Due to other funds  | 228,140                  | —                  | (63,681)           | 164,459            | —                |
| Deferred revenue  | (336,783)                | —                  | —                  | (336,783)          | —                |
| Funds held as fiduciary   | 111,259                  | —                  | —                  | 111,259            | —                |
| Long term debt-claims payable   | —                        | —                  | —                  | —                  | (37,188)         |
| Total adjustments   | <u>(103,117)</u>         | <u>766,435</u>     | <u>227,859</u>     | <u>891,177</u>     | <u>(88,959)</u>  |
| Net cash used in operating activities   | \$ <u>(72,302)</u>       | <u>(1,681,086)</u> | <u>(1,158,642)</u> | <u>(2,912,030)</u> | <u>(127,627)</u> |

There were no material non-cash financing and investing transactions.

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

**STATEMENT OF FIDUCIARY NET ASSETS**

Fiduciary Funds

*December 31, 2006***COUNTY OF CUMERLAND, PENNSYLVANIA**

|   | <b>Pension<br/>Trust –<br/>Employees’<br/>Retirement</b> | <b>Agency<br/>Funds</b> |
|---|--|-------------------------|
|   | <hr/>  | <hr/>                   |
| <b>Assets</b>   |  |                         |
| Cash and cash equivalents   | \$ 1,810,685   | 2,589,060               |
| Investments, at fair value  |  |                         |
| U.S. Government securities  | 34,163,593   | —                       |
| Corporate bonds   | 9,504,881  | —                       |
| Corporate stocks  | 34,665,068   | —                       |
| Mutual funds  | 27,631,316   | —                       |
| Total investments   | <hr/> 105,964,858  | <hr/> —                 |
| Accrued interest  | 704,782  | —                       |
| Total assets  | <hr/> 108,480,325  | <hr/> 2,589,060         |
| <b>Liabilities</b>  |  |                         |
| Due to other governments  | —  | 1,055,685               |
| Escrow and other liabilities  | 19,927   | 1,533,375               |
| Total liabilities   | <hr/> 19,927   | <hr/> 2,589,060         |
| <b>Net assets</b>   |  |                         |
| Net assets held in trust for<br>pension benefits and other purposes | \$ 108,460,398   | —                       |

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS****Pension Trust Fund***For the year ended December 31, 2006*

COUNTY OF CUMBERLAND, PENNSYLVANIA

**Additions:**

## Contributions:

|                     |                  |
|---------------------|------------------|
| Employer            | \$ 2,611,643     |
| Plan members        | 2,277,486        |
| Total contributions | <u>4,889,129</u> |

## Investment income:

|   |                   |
|---|-------------------|
| Net appreciation in fair value of investments | 5,884,311         |
| Interest                                      | 3,188,979         |
| Dividends                                     | <u>1,039,460</u>  |
| Total investment income                       | 10,112,750        |
| Less investment expense                       | (316,751)         |
| Net investment earnings                       | <u>9,795,999</u>  |
| Total additions                               | <u>14,685,128</u> |

**Deductions:**

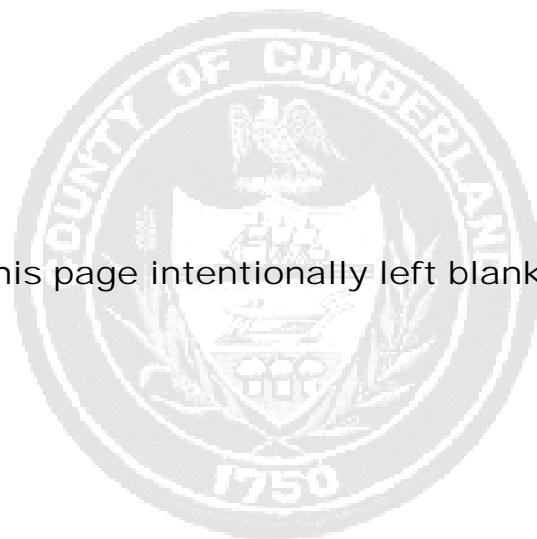
|                          |                  |
|--------------------------|------------------|
| Benefits                 | 3,208,311        |
| Refunds of contributions | 533,370          |
| Administrative expenses  | <u>82,391</u>    |
| Total deductions         | <u>3,824,072</u> |
| Change in net assets     | 10,861,056       |

**Net assets:**

|                   |                       |
|-------------------|-----------------------|
| Beginning of year | <u>97,599,342</u>     |
| End of year       | <u>\$ 108,460,398</u> |

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

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## **Notes to the Financial Statements**



**1. Summary of Significant Accounting Policies**

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

**A. The Reporting Entity**

The County of Cumberland is located in south central Pennsylvania, to the immediate west of the City of Harrisburg, the Capital of the Commonwealth. It is a County of the fourth class founded January 27, 1750, and operates under an elected three-member Board of Commissioners. The County provides services in many areas to its 226,117 residents, including various general governmental services, health and welfare, and community enrichment programs.

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

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

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

***(1) Component Units******Blended Component Units***

The Cumberland Area Economic Development Corporation (CAEDC) is a governmental not-for-profit that, despite being legally separate, is reported as a blended component unit (a non-major, special revenue fund). The CAEDC is reported as blended with the County because CAEDC's governing body is substantively the same as that of the County. Separate financial statements may be obtained from the Cumberland Area Economic Development Corporation, 18 North Hanover Street, Suite 102, Carlisle, PA 17013.

***Discretely Presented Component Units***

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

**Cumberland County Conservation District**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Cumberland County Library System**

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

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

**Other Organizations**

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

- Affordable Housing Trust Fund Board
- Aging and Community Services Advisory Board
- Agricultural Land Preservation Board
- Blighted Property Reinvestment Board
- Capital Area Behavioral Health Collaborative Board
- Capital Resource Conservation and Development Area Council Board
- Central Cumberland County Task Force on Regional Development
- Children Services Citizen Advisory Committee
- Commission for Women
- Cooperative Extension Association
- Cumberland Valley Visitors Bureau Tourism Committee
- Drug & Alcohol Commission Advisory Board
- Harrisburg Area Transportation Study Coordinating Committee
- LeTort Regional Authority
- Local Emergency Planning Committee
- Mental Health/Mental Retardation Advisory Board
- Municipal Authority
- Planning Commission
- Solid Waste Authority
- South Central PA Workforce Investment Board
- Susquehanna Area Regional Airport Authority Board
- Tri-County Attendant Care Advisory Committee
- Tri-County Regional Planning Commission

**(3) Joint Ventures**

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

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

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

Selected disclosures from CAT’s 2006 audited financial statements are:

| <u>Fiscal year:</u>                    | <u>June 30, 2006</u> |
|--|----------------------|
| Operating revenues                     | \$ 5,675,325         |
| Operating expenses                     | 16,378,213           |
| Loss from operations                   | (10,702,888)         |
| Total nonoperating revenues (expenses) | 9,786,986            |
| Capital grant funding                  | 1,524,352            |
| Net assets                             | 21,397,177           |
| Unrestricted deficit                   | (380,348)            |

CAT also has a \$750,000 line of credit with a bank at the bank’s prime rate plus 150 basis points as of June 30, 2006, none of which was outstanding at June 30, 2006. The line of credit is secured by a security interest in pending Commonwealth grant receipts.

Per the aforementioned Agreement, the County’s annual subsidy payment is \$218,888. Additionally, the County pays \$11,000 per year to CAT for transportation services for Shippensburg Borough, and \$8,000 for transportation services between Shippensburg and Newville. The County also paid \$30,048 for capital funding. In 2006, the County paid \$267,936 to CAT.

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

***(4) Prison Board***

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

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

**B. Basis of presentation**

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

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

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

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

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

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

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

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-Cumberland County 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, or other governments. The pension trust fund accounts for the retirement contributions of the County and its

employees. The agency funds account for cash collected by elected row officers (Clerk of Court, District Attorney, Prothonotary, Recorder of Deeds, Register of Wills, Sheriff, and Treasurer) and other County offices and is subsequently disbursed to individuals, private organizations and other governments for whom it was collected.

**E. Interfund Eliminations**

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

**F. Program Revenues**

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

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

**G. Net Patient Service Revenue**

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

**H. Operating and Nonoperating Revenues**

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

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

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

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

**I. Deposits and Investments**

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

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

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

#### **J. Prepaids**

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

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

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

Restricted cash and investments in governmental activities consist of general obligation bond and note proceeds designated for a specific programs or projects. Open space and farmland preservation are examples of specific programs. Specific projects are building renovations, including but not limited to, the County's recently acquired building on Allen Road, and prison, court room and fire training capital spending.

Restricted cash and investments in business-type activities consist of general obligation bond proceeds restricted for capital spending on the 800 MHz radio project at the emergency telephone center and resident money held in a fiduciary capacity at the County's nursing home.

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

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

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

Maintenance, repairs, and equipment less than the capitalization threshold are charged to operations when incurred. Costs that materially change capacities or extend useful lives are capitalized. Upon sale or 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 are capitalized when incurred. Construction in progress costs are capitalized as projects are constructed. Depreciation begins when the project is placed into service. Interest incurred



during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

**M. Compensated Absences**

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

- Upon termination, all unused vacation time up to a maximum of 30 days, will be paid with the final check.
- Upon termination, employees will be paid for one half of their total unused sick time up to a maximum of 45 days. Two types of sick leave exist within the County:
  - Accrued prior to August 1, 1997 and carried forward from year to year
  - Five days earned each year and which 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 and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond and note discounts and premiums, as well as issuance costs and deferred amounts on refundings, are deferred and amortized on the straight-line basis, which approximates the effective interest methods over the bond and note terms. Bonds and notes payable are reported net of applicable deferred amounts on refundings, discounts and premiums.

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

**O. Risk Management, Including Self Insurance**

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions for which it carries commercial insurance. Insurance settlements have not exceeded insurance coverage for the past ten 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 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 because reliance is placed 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*****(1) Fund Balance Reserves***

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

***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.

***Reserve for Row Office automation***

- ***Clerk of Court automation***

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

- ***Prothonotary automation***

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

- ***Register of Wills automation***

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

***Reserve for Register of Wills – Act 34***

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

***Reserve for farmland preservation, open space and greenways***

Certain proceeds from the County's 2004 and 2006 general obligation bonds issues are reserved to promote farmland preservation, open space and greenways in the County.

***Reserve for offenders' supervision***

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

***Reserve for criminal investigation***

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

***Reserve for County Election***

Certain bond proceeds from the County's 2006 general obligation bond issue are reserved for the purchase of election equipment.

***(2) Fund Balance Designations***

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

***Future capital projects***

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

***Future debt service arbitrage payments***

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

***Prison canteen***

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

***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. Additionally, by permitting retired employees the ability to participate in the employee health plan at the same premium rate, albeit 100% paid for by the retirees, the County is providing an implicit rate subsidy to its retirees. 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**

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This Statement establishes uniform financial reporting standards for OPEB plan trust funds and other funds used to accumulate assets and pay OPEB benefits. Currently, the County has no trust fund or other fund to accumulate assets and pay OPEB benefits; therefore, this Standard does not impact the County.

In May 2004, the GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*" This Statement requires improvements in the understandability and usefulness of the information in the statistical section of a CAFR. The County has implemented this Statement in its 2006 CAFR.

In June 2004, the GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.*" This Statement establishes standards for the reporting of non-pension post-employment benefits. The County provides retirees an implicit rate subsidy by allowing County retirees to purchase County health insurance at employee rates. The effect of implementing this Standard is not known at this time. The County is required, and intends, to implement this Statement in 2008.

In December 2004, the GASB issued Statement No. 46, "*Net Assets Restricted by Enabling Legislation*" requiring that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The County is required to, and has, implemented this Statement in its 2006 CAFR.

In June 2005, the GASB issued Statement No. 47, "*Accounting for Termination Benefits,*" requiring the recognition of expense and liability for termination benefits. This Standard is effective in 2006. Although the County does not, as a matter of practice, offer termination benefits, the County will implement this Statement should it offer such benefits in the future.

In September 2006, the GASB issued Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*” This Statement improves the disclosure of the unavailability of future revenues that have been pledged or sold. This Statement is effective in 2007. Although the County has not, as a matter of practice, sold or pledged receivables and future revenues, the County will implement this Statement when applicable.

## **2. Deposits and Investments**

The County reports deposits and investments in accordance with Governmental Accounting Standard Board Statement (GASB) No. 40 “Deposit and Investment Risk Disclosures.” This Statement requires enhanced disclosure of the risks of loss that the County’s deposits and investments are subject to. Specifically, this Statement requires the following disclosures regarding the County’s pension and non-pension deposits and investments:

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

### **A. Policies**

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

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

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

In 2003, the Commissioners adopted an investment policy governing its non-pension cash and investments. This policy was revised on September 28, 2006. This policy is consistent with the restrictions cited above and provides the following further restrictions on the County’s investments:

- Limits investments in commercial paper to 25% of County available funds
- Prohibits the placement of more than 35% of aggregate cash and investments in any one financial institution
- Restricts repurchase agreements to those invested in U.S. Government obligations and those of its agents and instrumentalities that are U.S. Government backed and requires a 102% margin for underlying collateral

- Requires that the purchase of securities be executed on a delivery versus payment basis through an independent third party and that securities shall be held by the custodian as evidenced by safekeeping receipts

To manage custodial credit risk, this policy requires that any purchase of securities be executed on a delivery vs. payment basis through an independent third party. Securities are required to be held by the custodian as evidence of safekeeping.

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

In 2003, the Retirement Board adopted an investment policy (“Pension Policy”) that governs the investments of the County’s pension trust fund. The Pension Policy was last revised in June 2006. The Pension Policy establishes an objective of a 3.5 percent real rate of return for the pension trust fund and an objective of meeting or exceeding the pension plan’s assumed actuarial rate of return. The Pension Policy also establishes an objective of meeting or exceeding the annualized investment performance of the pension plan’s weighted asset-class benchmark indices.

The Pension Policy provides that initial investments and subsequent market value of investments held in the common stock, of any one corporation, may not exceed 5% and 8%, respectively, of the equity portion of any portfolio.

To manage custodial credit risk, the Pension Policy requires that custodians and deposit administrators exercise fund safekeeping and securities settlement procedures by custodian participation in one or more appropriate securities depositories (e.g. Depository Trust Company, New York) and, as necessary, correspondent participation in other major depositories (e.g., the Federal Reserve System).

In order to limit foreign currency exposure, hedging is permitted to protect against currency fluctuations for equity securities denominated in foreign currencies.

To limit exposure to emerging markets and the associated risks, investments in emerging market equity securities are limited to fifteen percent of the international equity portfolio at market value.

Credit risk is managed by requiring that any single fixed income security be rated investment grade by two of the three major rating agencies. Commercial paper holdings shall be A1 or P1 or Prime.

To limit concentration of credit risk, holdings of fixed income securities of any one issuer cannot exceed 5% of the total market value of the fixed income portfolio. Debt securities issued by the U.S. Treasury and Federal agencies are not subject to this restriction.

Interest rate risk is managed by both limiting duration to within 25% of the duration of a fixed income portfolio benchmark and limiting holdings of fixed income securities that are subject to significant fluctuations in market value due to changes in interest rates. Holdings of zero coupon bonds are limited to 20% of the fixed income portfolio. Range accrual notes, interest only and principal only securities are limited, as a group, to 20% of the fixed income portfolio.

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

The Pension Policy prohibits the purchase and holding of the following securities: buying or short selling securities on margin and/or the use of any other form of leverage, including the lending of securities - unless approved in writing by the Board - privately placed or otherwise unregistered securities (except fixed income securities), issued under SEC Rule 144(a), commodities or commodity contracts, forward or futures trading activities, portfolio hedging (except the limited use of stock options and/or currency hedges), deep discount or zero coupon (except U.S. Treasury) securities, tax exempt, indirectly asset backed or spread-dependent, and stripped or otherwise derivative or synthetic securities.

**B. Risks**

**(1) Custodial Credit Risk**

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

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

**Custodial credit risk – non-pension deposits** – Custodial credit risk is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. As of December 31, 2006, \$35,496,363 of the County’s bank balance of \$44,262,634 was exposed to custodial credit risk as follows:

|  |                      |
|--|----------------------|
| Uninsured and collateral held by the bank but not in the County’s name                     | \$ 2,489,756         |
| Uninsured and collateral held by pledging bank’s trust department not in the County’s name | <u>33,006,607</u>    |
| Total  | <u>\$ 35,496,363</u> |

**Custodial credit risk – fiduciary fund deposits** – As of December 31, 2006, \$330,556 of the County’s bank balance of its fiduciary funds of \$3,077,348 was exposed to custodial credit risk as follows:

|  |                   |
|--|-------------------|
| Uninsured and collateral held by the bank but not in the County’s name                     | \$ 66,552         |
| Uninsured and collateral held by pledging bank’s trust department not in the County’s name | <u>264,004</u>    |
| Total  | <u>\$ 330,556</u> |

The County is named the beneficiary in a \$600,000 irrevocable standby letter of credit from a U.S. agency bank. The letter of credit collateralizes a County agency repurchase account with a deposit balance of \$420,005 at December 31, 2006. The repurchase account is not subject to FDIC insurance.

**Custodial credit risk – Cumberland County Industrial Development Authority deposits** – As of December 31, 2006, \$26,763 of the Authority’s bank balance of \$215,930 was exposed to custodial risk because it is uninsured and collateralized with securities held by the bank’s agent but not in the Authority’s name.

**Custodial credit risk – Cumberland County Conservation District deposits** – As of December 31, 2006, \$125,000 of the District’s bank balance of \$331,246 was exposed to custodial credit risk because it is uninsured and collateralized with securities held by the bank’s agent but not in the District’s name.

**Custodial credit risk – non-pension investments** – The County is exposed to custodial credit risk if its securities are held by a third party and are not registered in the County’s name. The County is exposed to custodial credit risk at December 31, 2006 through a \$326,498 U.S. Treasury inflation adjusted bond that matures in 2022 which is held by an third party and not registered in the County’s name. This security is held in the County’s general fund. The County’s investment policy does not require that securities held by third parties be registered in the County’s name.

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

**2. Interest Rate Risk**

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

**Interest rate risk – non-pension investments** – As of December 31, 2006 the County had the following maturities of debt securities:

| <b>Investment Type</b> | <b>Fair Value</b> | <b>Maturities (in Years)</b> |            |             |                     |
|------------------------|-------------------|------------------------------|------------|-------------|---------------------|
|                        |                   | <b>Less Than 1</b>           | <b>1-5</b> | <b>6-10</b> | <b>More Than 10</b> |
| <u>Debt securities</u> |                   |                              |            |             |                     |
| Money market funds     | \$ 2,345,205      | 2,345,205                    | —          | —           | —                   |
| U.S. Treasury notes    | 173,467           | —                            | 173,467    | —           | —                   |
| U.S. Treasury TIPS     | 589,731           | 108,942                      | 154,292    | —           | 326,497             |
| Total debt securities  | \$ 3,108,403      | 2,454,147                    | 327,759    | —           | 326,497             |

Of the \$3,108,403 of non-pension investments, above, \$2,345,205 of short-term, liquid investments are classified as cash and cash equivalents, and \$763,198 is classified as investments, on the statement of net assets of the primary government. Savings accounts and time deposits at financial institutions constitute the remaining \$1,265,000 of the total \$2,028,198 of investments reported on the statement of net assets of the primary government.

The County holds \$589,731 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2006. These bonds pay a fixed rate of interest over their term. The bond principal, however, is adjusted for changes in the consumer price index. At maturity, the bond pays the higher of the inflation-adjusted principal or the original principal amount; thereby protecting the holder from adverse changes in the inflation rate.



**Interest rate risk – pension investments** – As of December 31, 2006 the County’s pension trust fund had the following investments:

**Pension Trust Fund Investments**

| <b>Investment Type</b>                 | <b>Fair Value</b>     | <b>Investment Maturities (in Years)</b> |                   |                   |                     |
|--|-----------------------|---|-------------------|-------------------|---------------------|
|  |                       | <b>Less Than 1</b>                      | <b>1-5</b>        | <b>6-10</b>       | <b>More Than 10</b> |
| <u>Debt securities</u>                 |                       |   |                   |                   |                     |
| U.S. Treasury bills and GNMA           | \$ 4,534,084          | —                                       | 849,767           | 2,561,835         | 1,122,482           |
| U.S. agency mortgage backed securities | 29,629,509            | —                                       | 9,984,154         | 9,191,174         | 10,454,181          |
| Corporate mortgage backed securities   | 103,528               | —                                       | —                 | 8,718             | 94,810              |
| Collateralized mortgage obligations    | 930,675               | —                                       | —                 | —                 | 930,675             |
| Money market funds                     | 1,810,685             | 1,810,685                               | —                 | —                 | —                   |
| Corporate bonds and notes              | 8,470,678             | —                                       | 4,507,371         | 1,954,240         | 2,009,067           |
| <b>Total debt securities</b>           | <b>45,479,159</b>     | <b>1,810,685</b>                        | <b>15,341,292</b> | <b>13,715,967</b> | <b>14,611,215</b>   |
| <u>Other investments</u>               |                       |   |                   |                   |                     |
| Equity mutual funds U.S.               | 13,233,342            |   |                   |                   |                     |
| Equity mutual fund - international     | 14,397,974            |   |                   |                   |                     |
| Equity securities-U.S.                 | 34,665,068            |   |                   |                   |                     |
| <b>Total investments</b>               | <b>\$ 107,775,543</b> |   |                   |                   |                     |

The total Pension Trust investments of \$107,775,543, above, includes \$1,810,685 of short-term, liquid investments that are classified as cash and cash equivalents on the Pension Trust Employees’ Retirement Statement of Fiduciary Net Assets.

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

Of the pension trust fund’s debt security holdings, \$34,107,352 are corporate or U.S. government agency mortgage backed debt securities that are subject to early payment by the mortgage holder or are securities that are callable by the issuer at established intervals or subsequent to future dates.

The terms of the following callable debt securities may cause their fair value to be highly sensitive to interest rate changes. The type, fair value and terms of these debt securities at December 31, 2006 follow:

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

| <u>Debt Security</u> | <u>Amount</u>        | <u>Interest Terms</u>   |
|----------------------|----------------------|---|
| U.S. agencies        | \$ 291,048           | Zero coupon bond maturing in 2028   |
| U.S. agencies        | 716,036              | Zero coupon bond maturing in 2032   |
| U.S. agencies        | 1,811,110            | Zero coupon bond maturing in 2033   |
| U.S. agencies        | 1,876,503            | Three month London Interbank Offered Rate (LIBOR) plus 100 basis points capped at 5% to 2/08, 6% to 2/11, 7% to 2/14, 8% to 2/17  |
| U.S. agencies        | 1,811,110            | Three month LIBOR plus 1% as long as three month LIBOR is under 8%  |
| U.S. agencies        | 1,139,314            | Fixed at 6% as long as three month LIBOR is less than 6%  |
| U.S. agencies        | 876,067              | Fixed at 5.45% as long as six month LIBOR is less than 7%   |
| U.S. agencies        | 534,866              | Three month LIBOR plus 200 basis points, capped at 5% to 7/08, 6% to 7/13 and 7% to 7/18  |
| U.S. agencies        | 452,090              | Three month LIBOR plus 100 basis points as long as three month LIBOR is between 0-4.75% to 3/07, 0-5.5% to 3/08 with 2% min coupon, 6.25% to 3/09 with 2.5% min coupon, 6.5% to 3/10 with 3% min coupon |
| U.S. agencies        | 1,463,625            | 7% fixed rate as long as six month LIBOR is between 0-7.5%  |
| U.S. agencies        | 500,000              | 7% fixed rate as long as six month LIBOR is between 0-8%  |
| Corporate notes      | 726,278              | 7.5% to 12/04, then previous coupon minus twelve month LIBOR, in arrears, plus X, where X=3% to 9/05, 3.5% to 9/06, 4% to 9/07, 5% to 9/08 and 6% to 9/09. Reset quarterly.                             |
| Corporate notes      | 1,276,040            | 7.5% to 1/05, then previous coupon minus twelve month LIBOR plus X, where X=3% to 10/05, 3.5% to 10/06, 4% to 10/07, 5% to 10/08 and 6% to 10/09. Reset quarterly.                                      |
| Corporate notes      | 415,000              | 0% to 7/04, then formula = (previous coupon minus twelve month LIBOR in arrears plus X, where X = 3.5% to 4/07, 4% to 10/07, 4.5% to 4/08, 6% to 4/09. Reset quarterly.                                 |
|                      | <u>\$ 13,889,087</u> |   |

The pension trust fund holds \$737,997 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2006. These bonds pay a fixed rate of interest over their term. The bond principal, however, is adjusted for changes in the consumer price index. At maturity, the bond pays the higher of the inflation-adjusted principal or the original principal amount; thereby protecting the holder from adverse changes in the inflation rate.

**(3) Credit Risk**

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

**Credit risk – non-pension investments** - The County’s credit risk on its non-pension investments at December 31, 2006 is as follows:

| <u>Investment Type</u> | <u>Fair Value</u>   | <u>S &amp; P Rating</u> |
|------------------------|---------------------|-------------------------|
|                        |                     | <u>AAA</u>              |
| <u>Debt securities</u> |                     |                         |
| Money market funds     | \$ 2,345,205        | 2,345,205               |
| U.S. Treasury notes    | 173,467             | 173,467                 |
| U.S. Treasury TIPS     | 589,731             | 589,731                 |
| Total debt securities  | \$ <u>3,108,403</u> | <u>3,108,403</u>        |

**Credit risk – pension investments** - Exposure to credit risk in the County pension trust fund at December 31, 2006 is as follows:

| <u>Debt Investments</u>                | <u>Fair Value</u> | <u>Quality Ratings*</u> |                  |                  |                  |                  |
|--|-------------------|-------------------------|------------------|------------------|------------------|------------------|
|  |                   | <u>AAA</u>              | <u>AA</u>        | <u>A</u>         | <u>BBB</u>       | <u>Unrated</u>   |
| U.S. Treasury bills and GNMA           | 4,534,084         | 4,256,127               | —                | —                | —                | 277,957          |
| U.S. agency mortgage backed securities | 29,629,509        | 28,518,804              | —                | —                | —                | 1,110,705        |
| Corporate mortgage backed securities   | 103,528           | 103,528                 | —                | —                | —                | —                |
| Collateralized mortgage obligations    | 930,675           | 548,289                 | 382,386          | —                | —                | —                |
| Money market funds                     | 1,810,685         | —                       | —                | —                | —                | 1,810,685        |
| Corporate bonds and notes              | 8,410,678         | 835,281                 | 2,233,238        | 1,910,711        | 1,212,135        | 2,219,313        |
| Total                                  | <u>45,419,159</u> | <u>34,262,029</u>       | <u>2,615,624</u> | <u>1,910,711</u> | <u>1,212,135</u> | <u>5,418,660</u> |
|  |                   | 75%                     | 6%               | 4%               | 3%               | 12%              |

\* Expressed as Standard & Poor's quality ratings equivalents.

While certain U.S. Treasury and GNMA securities may be unrated, all U.S. Treasury and GNMA securities held are backed by the full faith and credit of the U.S. government and, therefore, are considered to possess the highest credit quality rating.

**(4) Concentration of Credit Risk**

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

**Concentration of credit risk – pension investments** - At December 31, 2006, the pension trust fund had more than 5% of its investment portfolio with the following issuers:

| <u>Issuer - Debt Securities</u>        | <u>Fair Value</u> | <u>Pension Trust Fund Investments</u> |
|--|-------------------|---------------------------------------|
| Federal Home Loan Mortgage Corporation | \$ 13,970,893     | 13.0%                                 |
| Federal Home Loan Banks                | 7,797,945         | 7.2%                                  |
| Federal National Mortgage Association  | 6,702,660         | 6.2%                                  |

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

**(5) Foreign Currency Risk**

**Foreign currency risk – pension investments** - Foreign currency risk is the risk that the fair market value of such securities will be adversely affected by changes in exchange rates. The pension trust fund is exposed to foreign currency risk through a \$14,397,974 investment at fair value in an international equity mutual fund. The equity fund’s objective is to invest at least 80% of its net assets in equity securities of companies located in at least three countries other than the U.S.

**(6) Emerging Market Risk**

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

The pension trust fund is exposed to emerging market risk in its \$14,397,974 investment at fair value in an international equity mutual fund that purchases foreign equity securities in foreign markets in the local currency. The mutual fund manages emerging market risk by holding securities from at least 15 countries.

**3. Real Estate Taxes**

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

The County is permitted by the County Code of the Commonwealth of Pennsylvania to levy real estate taxes up to 25 mills on every dollar of adjusted valuation for general County purposes exclusive of the requirements for the payment of interest and principal on bonded debt. For 2006, County real estate taxes were levied at the rate of 2.197 mills for general County purposes. An additional levy was approved by the electorate for the County library system at .180 mills. This tax is accounted for as an agency transaction and the revenues are not recognized by the County.

**4. Receivables**

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2006.

The County nursing home has \$4,030,295 in patient accounts receivable at December 31, 2006, which is primarily a Medical Assistance reimbursement receivable from the Commonwealth of Pennsylvania. The cost reimbursements receivable is subject to audit and final determination by the Department of Public Welfare. The County nursing home recorded an allowance for doubtful accounts of \$975,629 against the patient accounts receivable. Of the County nursing home's patient accounts receivable, \$195,680 is expected to be collected beyond one year.

Taxes receivable is reduced by an allowance for uncollectible accounts of \$462,432 for 2006 which is determined by a review of account status. Of the County's delinquent taxes receivable, \$228,000 is expected to be collected beyond one year.

Court costs and fines receivable are collectible balances on the day they are imposed through the County's court system. The County collects these balances through the Clerk of Court and the probation offices. Court costs and fines receivable as of the end of December 31, 2006 is \$5,130,234. Of that balance, the County has recognized an allowance for doubtful accounts of \$4,608,113. Of the County's court costs and fines receivable, \$154,445 is expected to be collected beyond one year.

**5. Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

|  | Beginning<br>Balance | Additions          | Sales and<br>Other Dispositions | Ending<br>Balance   |
|--|----------------------|--------------------|---------------------------------|---------------------|
| <b>Governmental activities:</b>              |                      |                    |                                 |                     |
| Capital assets, not being depreciated:       |                      |                    |                                 |                     |
| Land and improvements                        | \$ 1,673,028         | 721,817            | -                               | 2,394,845           |
| Construction in progress                     | 464,318              | 82,962             | -                               | 547,280             |
| Agricultural easements                       | 2,502,160            | 1,967,033          | -                               | 4,469,193           |
| Total capital assets, not being depreciated  | <u>4,639,506</u>     | <u>2,771,812</u>   | <u>-</u>                        | <u>7,411,318</u>    |
| Capital assets, being depreciated:           |                      |                    |                                 |                     |
| Buildings and systems                        | 34,425,621           | 1,730,414          | (100,743)                       | 36,055,292          |
| Improvements other than buildings            | 54,566               | -                  | -                               | 54,566              |
| Machinery and equipment                      | 12,857,495           | 2,605,340          | (1,545,714)                     | 13,917,121          |
| Bridges                                      | 6,774,381            | -                  | -                               | 6,774,381           |
| Total capital assets being depreciated       | <u>54,112,063</u>    | <u>4,335,754</u>   | <u>(1,646,457)</u>              | <u>56,801,360</u>   |
| Less accumulated depreciation for:           |                      |                    |                                 |                     |
| Buildings and systems                        | (21,361,809)         | (758,696)          | 100,049                         | (22,020,456)        |
| Improvements other than buildings            | (51,921)             | (481)              | -                               | (52,402)            |
| Machinery and equipment                      | (7,669,478)          | (1,030,015)        | 1,352,747                       | (7,346,746)         |
| Bridges                                      | (5,362,587)          | (103,327)          | -                               | (5,465,914)         |
| Total accumulated depreciation               | <u>(34,445,795)</u>  | <u>(1,892,519)</u> | <u>1,452,796</u>                | <u>(34,885,518)</u> |
| Total capital assets, being depreciated, net | <u>19,666,268</u>    | <u>2,443,235</u>   | <u>(193,661)</u>                | <u>21,915,842</u>   |
| Governmental activities capital assets, net  | <u>\$ 24,305,774</u> | <u>5,215,047</u>   | <u>(193,661)</u>                | <u>29,327,160</u>   |

(continued)

## 5. Capital Assets (continued)

|  | Beginning<br>Balance | Additions   | Sales and<br>Other Dispositions | Ending<br>Balance |
|--|----------------------|-------------|---------------------------------|-------------------|
| <b>Business-type activities:</b>             |                      |             |                                 |                   |
| Capital assets, not being depreciated:       |                      |             |                                 |                   |
| Construction in progress                     | \$ -                 | 15,330      | -                               | 15,330            |
| Total capital assets, not being depreciated  | -                    | 15,330      | -                               | 15,330            |
| Capital assets, being depreciated:           |                      |             |                                 |                   |
| Buildings and systems                        | 26,484,520           | 224,817     | (343,674)                       | 26,365,663        |
| Improvements other than buildings            | 555,717              | -           | -                               | 555,717           |
| Machinery and equipment                      | 13,378,074           | 620,540     | (828,971)                       | 13,169,643        |
| Total capital assets being depreciated       | 40,418,311           | 845,357     | (1,172,645)                     | 40,091,023        |
| Less accumulated depreciation for:           |                      |             |                                 |                   |
| Buildings and systems                        | (10,369,864)         | (963,197)   | 343,674                         | (10,989,387)      |
| Improvements other than buildings            | (217,856)            | (28,032)    | -                               | (245,888)         |
| Machinery and equipment                      | (7,624,935)          | (1,120,041) | 846,745                         | (7,898,231)       |
| Total accumulated depreciation               | (18,212,655)         | (2,111,270) | 1,190,419                       | (19,133,506)      |
| Total capital assets, being depreciated, net | 22,205,656           | (1,265,913) | 17,774                          | 20,957,517        |
| Business-type activities capital assets, net | \$ 22,205,656        | (1,250,583) | 17,774                          | 20,972,847        |

(continued)

**5. Capital Assets (continued)**

|   | Beginning<br>Balance | Additions | Sales and<br>Other Dispositions | Ending<br>Balance |
|---|----------------------|-----------|---------------------------------|-------------------|
| <b>Component units:</b>                         |                      |           |                                 |                   |
| Capital assets, being depreciated:              |                      |           |                                 |                   |
| Machinery and equipment                         | \$ 135,486           | 21,146    | (16,600)                        | 140,032           |
| Total capital assets being depreciated          | 135,486              | 21,146    | (16,600)                        | 140,032           |
| Less accumulated depreciation for:              |                      |           |                                 |                   |
| Machinery and equipment                         | (111,370)            | (13,456)  | 16,600                          | (108,226)         |
| Total accumulated depreciation                  | (111,370)            | (13,456)  | 16,600                          | (108,226)         |
| Total capital assets, being<br>depreciated, net | 24,116               | 7,690     | -                               | 31,806            |
| Component unit capital assets, net              | \$ 24,116            | 7,690     | -                               | 31,806            |



**5. Capital Assets (continued)**

Depreciation expense was charged to the functions/programs of the County in 2006 as follows:

|   |                     |
|---|---------------------|
| Governmental activities:                              |                     |
| General government                                    | \$ 1,084,696        |
| General government judicial                           | 170,596             |
| Public safety   | 345,686             |
| Roads and bridge maintenance                          | 103,326             |
| Solid waste management                                | 50,143              |
| Human services:                                       |                     |
| Mental health/mental retardation                      | 26,751              |
| Children and youth                                    | 41,533              |
| Food and shelter                                      | 8,945               |
| Office of aging                                       | 22,213              |
| Other   | 31,469              |
| Conservation  | 2,960               |
| Economic development and assistance                   | 4,201               |
| Total depreciation expense - governmental activities  | \$ <u>1,892,519</u> |
| Business-type activities:                             |                     |
| Emergency telephone                                   | \$ 826,323          |
| Hazardous materials protection                        | 86,966              |
| Transportation services                               | 211,877             |
| County nursing home                                   | 972,597             |
| Early Learning Center                                 | 13,507              |
| Total depreciation expense - business-type activities | \$ <u>2,111,270</u> |

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

The Cumberland Area Economic Development Corporation (CAEDC), which is a governmental not-for-profit entity that, despite being legally separate, is reported as a blended component unit. The CAEDC financial statements, which are separately audited by other auditors, are reported in the County’s financial statements. Subsequent to the County issuing its financial statements for the year ended December 31, 2005, the CAEDC amended its financial statements and recognized additional grant revenue which was reported as deferred revenue in the County’s financial statements. This resulted in a restatement of the beginning balances of the CAEDC non-major special revenue fund and the governmental activities in the Statement of Activities for \$5,000.

The Cumberland County Industrial Development Authority, which is a discretely presented component unit and is separately audited, decreased their beginning net assets by \$775 as a result of changing to the full accrual basis of accounting from the modified basis of accounting. The restatement is in the amount of additional liabilities recognized under the full accrual basis of accounting.

Agency fund beginning balances were restated by a total of \$247,028 to reflect the inclusion of certain accounts for which it was determined that the County had fiduciary responsibility.

**7. Interfund and Transfer Accounts**

The composition of interfund balances at December 31, 2006, follows:

|                                  | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|----------------------------------|----------------------------------|-------------------------------|
| <b>Governmental funds:</b>       |                                  |                               |
| General fund                     | \$ 2,463,413                     | —                             |
| Mental health/mental retardation | 259,382                          | —                             |
| Children and youth               | —                                | 3,356,387                     |
| HealthChoices-Cumberland County  | 9,264                            | —                             |
| Other non-major funds            | 1,623,896                        | 1,525,867                     |
|                                  | <u>4,355,955</u>                 | <u>4,882,254</u>              |
| <b>Enterprise funds:</b>         |                                  |                               |
| County nursing home              | —                                | 67,526                        |
| Emergency telephone              | 423,938                          | —                             |
| Other non-major funds            | 170,173                          | 286                           |
|                                  | <u>594,111</u>                   | <u>67,812</u>                 |
| <b>Total primary government</b>  | <u>\$ 4,950,066</u>              | <u>4,950,066</u>              |

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

Transfers from the general fund are used, in part, to help finance various grant programs in other funds. Additionally, transfers are used to subsidize operations such as the Early Learning Center, emergency

telephone and hazardous materials programs. Transfers are also used to move unrestricted funds from the general fund to pay debt service.

The composition of interfund transfers for the year ended December 31, 2006, follow:

|                                  | <b>Transfers<br/>In</b> | <b>Transfers<br/>Out</b> |
|----------------------------------|-------------------------|--------------------------|
| <b>Governmental funds:</b>       |                         |                          |
| General                          | \$ 456,457              | 9,860,732                |
| Mental health/mental retardation | 583,257                 | 16,431                   |
| Children and youth               | 2,130,384               | 74,187                   |
| HealthChoices-Cumberland County  | —                       | 88                       |
| Other non-major funds            | 4,691,184               | 1,648,125                |
|                                  | <u>7,861,282</u>        | <u>11,599,563</u>        |
| <b>Enterprise funds:</b>         |                         |                          |
| County nursing home              | 151,329                 | —                        |
| Emergency telephone              | 3,254,160               | 8,743                    |
| Other non-major funds            | 341,535                 | —                        |
|                                  | <u>3,747,024</u>        | <u>8,743</u>             |
| <b>Total primary government</b>  | <u>\$ 11,608,306</u>    | <u>11,608,306</u>        |

**8. Short-term Debt**

On September 27 and September 28, 2006, the County issued two tax revenue anticipation notes in the amount of \$6,898,897 (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 27 and September 28, 2006 the County repaid \$6,898,897 (each) related to these tax revenue anticipation notes. There was no outstanding balance at December 31, 2006, related to the issuance of this short-term debt during 2006. Short-term debt activity for the year ended December 31, 2006, was as follows:

|                                | Beginning<br>Balance | Issued     | Redeemed   | Ending<br>Balance |
|--------------------------------|----------------------|------------|------------|-------------------|
| Tax revenue anticipation notes | \$ —                 | 13,797,794 | 13,797,794 | —                 |

**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, 2006:

| <u>Liability</u>                             | <u>Balance<br/>January 1,<br/>2006</u> | <u>Additions</u>  | <u>Reductions</u> | <u>Balance<br/>December 31,<br/>2006</u> | <u>Due<br/>Within<br/>One Year</u> |
|--|--|-------------------|-------------------|--|------------------------------------|
| <b>Governmental activities:</b>              |  |                   |                   |  |                                    |
| Bonds and notes payable:                     |  |                   |                   |  |                                    |
| Bonds  | \$ 10,986,001                          | 9,900,000         | 1,292,893         | 19,593,108                               | 1,319,269                          |
| Notes  | 2,413,615                              | -                 | 116,859           | 2,296,756                                | 121,032                            |
| Deferred amount on refundings                | (45,411)                               | -                 | (4,047)           | (41,364)                                 | -                                  |
| Premium (discount) on bonds and notes        | 3,092                                  | (52,511)          | (1,751)           | (47,668)                                 | -                                  |
| Total bonds and notes payable                | <u>13,357,297</u>                      | <u>9,847,489</u>  | <u>1,403,954</u>  | <u>21,800,832</u>                        | <u>1,440,301</u>                   |
| Sick and vacation                            | 3,064,879                              | 3,008,357         | 2,826,113         | 3,247,123                                | 147,894                            |
| Capital leases                               | 41,549                                 | 50,519            | 23,986            | 68,082                                   | 28,027                             |
| Governmental activity long-term liabilities  | <u>\$ 16,463,725</u>                   | <u>12,906,365</u> | <u>4,254,053</u>  | <u>25,116,037</u>                        | <u>1,616,222</u>                   |
| <b>Business-type activities:</b>             |  |                   |                   |  |                                    |
| Bonds and notes payable:                     |  |                   |                   |  |                                    |
| Bonds  | \$ 10,503,999                          | -                 | 397,107           | 10,106,892                               | 405,731                            |
| Notes  | 13,691,385                             | -                 | 653,141           | 13,038,244                               | 673,969                            |
| Deferred amount on refundings                | (310,763)                              | -                 | (28,562)          | (282,201)                                | -                                  |
| Premium on notes                             | 25,537                                 | -                 | 1,680             | 23,857                                   | -                                  |
| Total bonds and notes payable                | <u>23,910,158</u>                      | <u>-</u>          | <u>1,023,366</u>  | <u>22,886,792</u>                        | <u>1,079,700</u>                   |
| Arbitrage payable                            | 61,053                                 | -                 | 61,053            | -  | -                                  |
| Sick and vacation                            | 880,030                                | 1,062,542         | 1,087,213         | 855,359                                  | 75,168                             |
| Workers' compensation                        | 1,616,789                              | 371,224           | 408,412           | 1,579,601                                | 548,431                            |
| Capital leases                               | 20,139                                 | -                 | 11,761            | 8,378                                    | 8,378                              |
| Business-type activity long-term liabilities | <u>\$ 26,488,169</u>                   | <u>1,433,766</u>  | <u>2,591,805</u>  | <u>25,330,130</u>                        | <u>1,711,677</u>                   |
| <b>Component unit:</b>                       |  |                   |                   |  |                                    |
| Sick and vacation                            | \$ 46,751                              | 31,282            | 29,627            | 48,406                                   | 2,117                              |
| Component unit Long-term liabilities         | <u>\$ 46,751</u>                       | <u>31,282</u>     | <u>29,627</u>     | <u>48,406</u>                            | <u>2,117</u>                       |

For the governmental activities, bonds are exclusively liquidated by the general fund by transferring amounts to the debt service fund for principal and interest payments. 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, 2006, are general obligation debt supported by the full faith and credit of the County and are summarized as follows:

|  | <u>Interest<br/>Rate</u> | <u>Final<br/>Maturity</u> | <u>Original<br/>Issue</u> | <u>Governmental<br/>Activities</u> | <u>Business-<br/>type<br/>Activities</u> |
|--|--------------------------|---------------------------|---------------------------|------------------------------------|--|
| G.O. bonds – 2001 issue                    | Variable rate            | 2020                      | 9,060,000                 | \$ —                               | 6,485,000                                |
| G.O. bonds – 2002 issue                    | 2.3% - 4.35%             | 2017                      | 9,425,000                 | 3,033,592                          | 3,541,408                                |
| G.O. note – 2003 issue                     | 5.857%                   | 2022                      | 715,000                   | 715,000                            | —  |
| G.O. bond – 2004 issue                     | 2% - 4.55%               | 2019                      | 7,930,000                 | 6,659,516                          | 80,484                                   |
| G.O. note - 2005 issue                     | 2.6% - 5%                | 2021                      | 15,650,000                | 1,581,756                          | 13,038,244                               |
| G.O. bond – 2006 issue                     | 3.7% - 4.3%              | 2019                      | 9,900,000                 | <u>9,900,000</u>                   | <u>—</u>                                 |
| Long-term debt at<br>December 31, 2006     |                          |                           |                           | 21,889,864                         | 23,145,136                               |
| Deferred amount on refundings              |                          |                           |                           | (41,364)                           | (282,201)                                |
| Premium (discount) on notes                |                          |                           |                           | <u>(47,668)</u>                    | <u>23,857</u>                            |
| Net long-term debt at<br>December 31, 2006 |                          |                           |                           | <u>\$ 21,800,832</u>               | <u>22,886,792</u>                        |

Of the outstanding balance at December 31, 2006, of the 2001 bond issue, \$5,293,057 of the principal has been accounted for in the County nursing home fund and \$1,191,943 of the principal has been accounted for in the emergency telephone fund.

The 2001 bond issue has a variable interest rate that is determined weekly based upon the lowest rate of interest which, in the judgment of the remarketing agent, 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 2001 bonds to a fixed rate if certain conditions are met.

Of the outstanding balance at December 31, 2006, of the 2002 bond issue, \$2,252,331 of the principal has been accounted for in the County nursing home fund and \$1,289,077 of the principal has been accounted for in the emergency telephone fund. Principal of \$3,033,592 has been accounted for in the general fund.

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

Of the outstanding balance at December 31, 2006, of the 2004 bond issue, \$80,484 of the principal has been accounted for in the County nursing home fund and \$6,659,516 has been accounted for in the general fund.

Of the outstanding balance at December 31, 2006 of the 2005 note issue, \$5,881,704 of the principal has been accounted for in the County Nursing Home fund, \$7,156,540 has been accounted for in the emergency telephone fund, and \$1,581,756 has been accounted for in the general fund.

In 2006, the County issued general obligation bonds – series 2006 in the amount of \$9,900,000 to fund several capital projects, to include but not limited to, farmland preservation, renovations to the county prison,

purchase and renovations of a building, and election equipment. Of the outstanding balance at December 31, 2006 of the 2006 bond issue, \$9,900,000 has been accounted for in the general fund.

The County’s December 31, 2006, net nonelectoral debt limit and combined net nonelectoral debt and net lease rental debt limit are \$375,593,703 and \$513,480,554, respectively.

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, 2006, including interest payments, are as follows:

|              |           | <b>Governmental-<br/>type Activities</b> |                  | <b>Business-<br/>type Activities</b> |                  |
|--------------|-----------|--|------------------|--------------------------------------|------------------|
|              |           | <b>Principal</b>                         | <b>Interest</b>  | <b>Principal</b>                     | <b>Interest</b>  |
| 2007         | \$        | 1,440,301                                | 955,705          | 1,079,699                            | 937,178          |
| 2008         |           | 1,589,526                                | 805,387          | 1,110,474                            | 908,248          |
| 2009         |           | 1,156,969                                | 758,988          | 1,633,031                            | 873,141          |
| 2010         |           | 1,200,742                                | 718,718          | 1,689,258                            | 812,870          |
| 2011         |           | 1,238,688                                | 674,934          | 1,761,312                            | 748,211          |
| 2012-2016    |           | 8,948,351                                | 2,452,701        | 8,081,649                            | 2,636,292        |
| 2017-2021    |           | 5,600,287                                | 512,441          | 7,789,713                            | 903,869          |
| 2022         |           | 715,000                                  | 41,828           | —                                    | —                |
| <b>Total</b> | <b>\$</b> | <b>21,889,864</b>                        | <b>6,920,702</b> | <b>23,145,136</b>                    | <b>7,819,809</b> |

**10. Deficit Net Assets**

The County’s emergency telephone fund has negative net assets of \$1,835,166 at December 31, 2006. 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. Operating**

The County leases office equipment and vehicles for various County offices and building space for certain County and district judge offices. The County’s office equipment and vehicle lease terms range from two to five years. The County’s building leases contain fixed scheduled rent payable monthly. Building leases have expiration dates extending through 2020. Total expenses for such leases were \$580,497 for the year ended December 31, 2006.

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, 2006:

| <u>Year Ending<br/>December 31,</u> | <u>Lease<br/>Payments</u> |
|-------------------------------------|---------------------------|
| 2007                                | \$ 515,444                |
| 2008                                | 402,230                   |
| 2009                                | 288,223                   |
| 2010                                | 209,021                   |
| 2011                                | 190,668                   |
| 2012-2016                           | 472,954                   |
| 2017-2021                           | <u>261,253</u>            |
| Total                               | <u>\$ 2,339,793</u>       |

**B. Capital Lease Obligation**

In 2006, the County financed the purchase of two photo copiers and one vehicle for the Domestic Relations office under a long-term capital lease. The County is required to make lease payments for capital assets acquired in prior years which consist of four vehicles and security equipment. Annual interest rates ranged from .89% to 24.92% on the County’s capital leases in effect at December 31, 2006.

The assets acquired through capital leases are as follows:

|                                | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> |
|--------------------------------|------------------------------------|-------------------------------------|
| Asset:                         |                                    |                                     |
| Machinery and equipment        | \$ 407,812                         | 1,350                               |
| Less: Accumulated depreciation | (326,913)                          | (868)                               |
| Machinery and equipment, net   | <u>\$ 80,899</u>                   | <u>482</u>                          |
| Building and systems           |                                    | \$ 7,995                            |
| Less: Accumulated depreciation |                                    | (1,799)                             |
| Buildings and systems, net     |                                    | <u>\$ 6,196</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, 2006:

|   | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> |
|---|------------------------------------|-------------------------------------|
| 2007  | \$ 30,860                          | 8,631                               |
| 2008  | 20,116                             | -                                   |
| 2009  | 14,078                             | -                                   |
| 2010  | 7,892                              | -                                   |
| Total minimum lease payments                | <u>72,946</u>                      | <u>8,631</u>                        |
| Less amount representing interest           | <u>(4,864)</u>                     | <u>(253)</u>                        |
| Present value of net minimum lease payments | <u>\$ 68,082</u>                   | <u>8,378</u>                        |

**C. Building space leased to third party**

As part of the County’s acquisition of the 310 Allen Road, Carlisle property on September 29, 2006, the County agreed to lease to the seller 10,000 square feet of an outbuilding for temporary document storage. This lease ends December 31, 2008 and provides for annual rent of \$45,000 in 2007 and \$45,000 in 2008. The cost and accumulated depreciation of the leased space at December 31, 2006 was \$254,760 and \$2,548, respectively.

**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, 2006, employee membership data related to the pension plan was as follows:

|  |                     |
|--|---------------------|
| Retirees and beneficiaries receiving benefits                      | 383                 |
| Terminated plan members entitled to but not yet receiving benefits | 105                 |
| Active plan members  | <u>1,084</u>        |
| Total  | <u><u>1,572</u></u> |

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

**B. Summary of Significant Accounting Policies**

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

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

**C. Funding Policy and Contributions**

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



For 2006, the County’s annual pension cost of \$2,611,643 was equal to the County’s required and actual contribution. The required contribution was determined as part of the January 1, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected salary increases due to inflation of 3%, and (c) projected salary increases due to seniority/merit increases of 4.00% in 2006, increased by .25% increments over the next two years to a maximum of 4.5% attained for 2009 and later years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The County’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2006, was 28 years.

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

Three Year Trend Information for the Cumberland County Retirement Plan:

| <u>Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 12/31/04           | \$2,084,919                      | 100%                                 | \$0                           |
| 12/31/05           | 2,421,626                        | 100%                                 | \$0                           |
| 12/31/06           | 2,611,643                        | 100%                                 | \$0                           |

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

| (1)<br><u>Actuarial Valuation Date</u> | (2)<br><u>Actuarial Value of Assets</u> | (3)<br><u>Actuarial Accrued Liability-Entry Age</u> | (4)<br><u>Unfunded Actuarial Accrued Liability</u> | (5)<br><u>Funded Ratio (2/3)</u> | (6)<br><u>Covered Payroll</u> | <u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4/6)</u> |
|--|---|---|--|----------------------------------|-------------------------------|--|
| 1/1/05                                 | \$84,105,420                            | \$95,733,266  | \$11,627,846                                       | 87.9%                            | \$40,117,850                  | 29.0%  |
| 1/1/06                                 | 91,003,246                              | 103,853,132   | 12,849,886   | 87.6%                            | 39,731,561                    | 32.3%  |
| 1/1/07                                 | 98,379,217                              | 113,652,216   | 15,272,999   | 86.6%                            | 43,083,443                    | 35.4%  |

**D. Historical Trend Information**

Historical trend information for the Plan is presented as required supplementary information on page 83 and 84 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, 2006.

**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 but not reported (IBNR). Liabilities for claims do not include nonincremental claims adjustment expenses. 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, 2006, were:

|      | Beginning of<br>Year Liability | Provision for<br>Claims |                | Claim Payments  |                | End of Year<br>Liability |
|------|--------------------------------|-------------------------|----------------|-----------------|----------------|--------------------------|
|      |                                | Current<br>Year         | Prior<br>Years | Current<br>Year | Prior<br>Years |                          |
| 2006 | \$ 1,616,789                   | 457,691                 | (86,467)       | 79,177          | 329,235        | 1,579,601                |
| 2005 | \$ 1,375,408                   | 562,341                 | 224,237        | 97,776          | 447,421        | 1,616,789                |

**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, 2006, there were seventeen series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$416 million.

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

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

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

The IDA, as a result of the assignments, has no on-going obligation for the debt and does not include the debt or related installment sales agreements in the financial statements of its operating fund. As of December 31, 2006, the projects had \$67,255,723 in outstanding principal balances.

**17. Subsequent event**

On May 17, 2007, the County Commissioners adopted an ordinance to refund the County's variable interest rate 2001 general obligation bonds with the issuance of fixed interest rate (3.6%-4.1%) 2007 general obligation notes. The 2007 notes are in the face amount of \$6,610,000 and mature serially through 2020.