

County of Lancaster

Lancaster, Pennsylvania



Comprehensive Annual Financial Report

For the year ended December 31, 2005

COUNTY OF LANCASTER, PENNSYLVANIA

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT**

For the Year Ended December 31, 2005

PREPARED BY THE CONTROLLER'S OFFICE

**Dennis P. Stuckey, Controller
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Darlene T. Davis, Assistant Deputy Controller
Andrew D. Sapovchak, CPA, Accounting/Auditing Supervisor
Kathryn B. Kunkel, Accounts Payable/Payroll Supervisor
Rebecca M. Dittenhafer, Systems Administrator**

**INDEPENDENT AUDITORS
Ernst & Young LLP**

**CONTROLLER'S SOLICITOR
George D. Alspach**

**COVER PHOTOGRAPH
Robert Fulton Birthplace
Photo courtesy of Lancaster County Planning Commission**

COUNTY OF LANCASTER, PENNSYLVANIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the year ended December 31, 2005

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DENNIS STUCKEY
Controller

LANCASTER COUNTY

CONTROLLER'S OFFICE

50 NORTH DUKE STREET
PO BOX 83480
LANCASTER, PA 17608-3480
TELEPHONE: 717-299-8262



June 16, 2006

DENNIS P. STUCKEY
Controller

To the Citizens of the County of Lancaster, Pennsylvania:

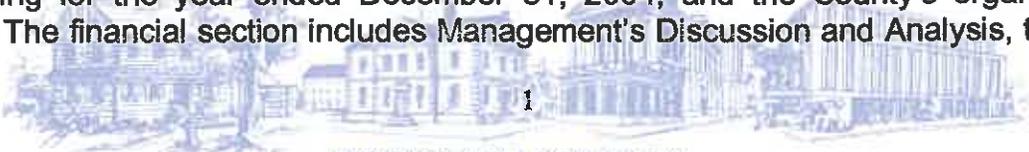
The comprehensive annual financial report of the County of Lancaster, Pennsylvania, for the year ended December 31, 2005, is hereby submitted.

The County's management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management of the County of Lancaster has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County of Lancaster's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the County of Lancaster's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is accurate and complete in all material respects. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities are included.

State statutes require that an annual audit be performed by independent certified public accountants. The Lancaster County Commissioners selected Ernst & Young LLP. The independent auditors report on the basic financial statements and give an "in relation to" opinion on the combining and individual fund statements and schedules included in the financial section of this report. The independent auditors disclaim an opinion on the introductory and statistical sections of the report.

In addition to meeting the requirements set forth in state statutes, this audit was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The single audit for 2005 will be completed during September 2006. Information related to this single audit, including the supplementary schedule of expenditures of federal awards, findings and recommendations, and independent auditors' reports on internal control and compliance with applicable laws and regulations, and major program requirements, will be included in a separately issued single audit report.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of the County's principal officials, the Certificate of Achievement for Excellence in Financial Reporting for the year ended December 31, 2004, and the County's organizational chart. The financial section includes Management's Discussion and Analysis, the basic



financial statements, the required supplementary information and notes to the required supplementary information, and the combining and individual fund statements and schedules, as well as the report of independent auditors. GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in connection with it. The County's MD&A can be found immediately following the report of the independent auditors. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds and activities of the County and reflects the extensive range of countywide services including, but not limited to, emergency services; health care and social services; construction and maintenance of highways, streets, and infrastructure; recreational activities; and cultural events. The report includes the Lancaster County Convention Center Authority as a component unit.

Profile of the Government

Lancaster County occupies a land area of 946 square miles. It is comprised of 60 municipal divisions including the City of Lancaster, 18 boroughs, and 41 townships. The County is located in south central Pennsylvania, approximately 60 miles west of Philadelphia and 240 miles east of Pittsburgh. A third class county since 1962, it was incorporated in 1729. Today, approximately 490,562 people make Lancaster County their home.

The County of Lancaster operates under the elected board of commissioners form of government. Three county commissioners are elected every four years and may be reelected. The County Code stipulates that each party may put up no more than two candidates and that each voter may cast a ballot for only two commissioner candidates. The three receiving the highest number of votes are elected. This ensures that the commissioners are not all from the same political party. In addition to having limited legislative powers, the commissioners serve as the managers and administrators of county government, name residents to boards, commissions, and authorities, and award contracts. To assist the commissioners with their administrative duties, they appoint a Chief Administrative Officer who is responsible for the preparation and monitoring of the annual County budget contract negotiations and a Chief Services Officer who is responsible for all the County Human service agencies and service providers. They also appoint a Chief Clerk who keeps the books and accounts of the Board of County Commissioners, records and files their proceedings and papers, attests all orders and voucher checks issued by them, and performs all other duties pertaining to the office of Chief Clerk. Also assisting them are a number of officials elected for four-year terms, who fill the so-called row offices, and numerous appointed deputies and directors.

The annual budget serves as the foundation for the County of Lancaster's financial planning and control. The County Commissioners must adopt an annual budget for the County by December 31 of each year for the subsequent year. The annual budget estimates revenues and expenditures for all governmental funds except the Community Development Block Grant and Agricultural Land Preservation special revenue funds, the debt service fund, and the capital projects funds. The debt service fund is controlled

through a general obligation bond indenture provision. Project-length financial plans are adopted for all capital projects. The legal level of budgetary control is established by fund. It is the prerogative of management to also maintain an enhanced level of control at the function and object level. Supplemental appropriations, which alter the total expenditures of any fund, require resolution by the County Commissioners. Appropriations lapse at the end of each year and must be reappropriated.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County of Lancaster operates.

Local Economy. Lancaster County is one of the leading industrial areas in the state. It is considered a prime location for manufacturing, away from congested areas, yet close to the major East Coast markets. Industry is highly diversified, which helps to maintain the economic stability. Lancaster County is home to more than 11,000 companies representing every economic sector. With an even mix of manufacturing and service and retail, our corporate community continues to prosper, grow, and diversify. The County's unemployment rate of 3.6% remains consistently lower than both the state and national averages of 4.7% and 4.9%, respectively. For these reasons, Lancaster County is a desirable place to locate and expand a business. In addition, agriculture and tourism play significant roles in the diversity and durability of Lancaster's economy.

Lancaster County is one of the most fertile agricultural areas in the land and produces more agricultural products and yields more food than any other non-irrigated county in the nation. The County currently houses 5,293 farms which occupy nearly 412,000 acres out of the county's 629,880 acres. Lancaster County agriculture is noted for having a well diversified farm economy that is not solely dependent on any one sector to assure its success. Farmers have maintained a strong work ethic and a long-standing commitment to not just working the land, but working with the land. Preservation and conservation are as important as production to the agricultural community. Thanks to the Agricultural Preserve Board and the Lancaster Farmland Trust, Lancaster County is ranked #2 in the United States with approximately 58,000 acres of preserved farmland, which represents 18% of Ag-zoned land. A continued commitment to land preservation ensures that Lancaster County's farming traditions will survive for many generations to come.

Due to the area's historic sites, the city's architectural charm, the county's rolling, well-kept farmlands, and the large Amish community, Lancaster continues to be a popular destination for many tourists. They visit the county to experience life on an operating farm; tour numerous historic sites dating back to the 1700's; purchase heirloom quilts, or finely handcrafted wood and leather products; cruise endless numbers of antique shops, over 240 factory outlet stores, or quaint farmers markets; take covered bridge bike tours or horse and buggy rides through Amish country. Each year some 8.3 million people visit the area spending approximately \$1.7 billion and generating \$2.3 billion in indirect activity.

Major Initiatives

For the Year

- ⇒ The Commissioners formed the Blue Ribbon Commission for Agriculture in Lancaster County. The commission was formed to coordinate and formulate effective and innovative ways to prioritize efforts for the continued viability of agriculture in the county. The commission is made up of a diverse group of community leaders who represent various agricultural, academic and economic disciplines with diversity in education, culture and geography who will seek innovative and successful ways to ensure that we “Keep Lancaster County Farming”.
- ⇒ The “transition to community” re-entry management program was implemented inside the county prison in an effort to manage the growing prison population and to reduce the rate of recidivism. The program conducts assessment orientations and provides appropriate counseling and residential housing assistance. Also, the re-entry management council oversees the combined efforts of some 37 district community groups whose collective endeavor is to assist in the eventual return of offenders to society.
- ⇒ The Commissioners continue to make public safety a top priority for the citizens of Lancaster County. During the past two years, the Lancaster County Public Safety Training Center (LCPSTC) has hosted over 2,000 events which include various seminars, clinics and educational roundtables to over 50,000 individuals. These events included programs for law enforcement, fire, and emergency medical personnel in addition to many county departments. The goal is to make the operations of all our first responders as safe, efficient, and effective as possible to protect themselves and the residents of the communities they serve.
- ⇒ Lancaster County Children and Youth Agency in conjunction with the Foster Parent Association developed a Foster Parent/Agency Mutual Agreement of Understanding and a Foster Parent Court Handbook. Both are being used as models for other counties in the state.

For the Future

- ⇒ Beginning with the primary election in May 2006, the Hart Voting Systems will replace the county’s lever voting machines. The purchase of a new voting machine system was necessary to comply with the Help America Vote Act (HAVA) signed into law by the President on October 29, 2002. This new law requires voting systems to be accessible so that all voters can cast a vote privately and independently and the system must have a manual audit trail. The new system has two components: the eScan for paper ballots and the eSlate for accessible voting. Both systems will be available at each polling place. Through HAVA, the federal government has appropriated funds to assist with the purchase of new systems. Federal funds will pay for \$2.4 million of the county’s \$2.9 million total cost.

⇒ The Lancaster County Office of Aging has been asked by the Pennsylvania Department of Aging to join with the Governor's Council on Health Care Reform and the Pennsylvania Department of Welfare to "pilot" the state's first Nursing Home Transition (NHT) Program. The goal of NHT is to help individuals transition back into the community from nursing homes. This program will not only give individuals more independence in where they choose to receive services but transitioning them from nursing facilities will also result in a more efficient utilization of tax dollars and the ability to serve more consumers. The lessons learned and best practices established here in Lancaster will be shared with other counties as this program is rolled out statewide in 2006.

Cash Management Policies and Practices. Temporarily idle cash was invested by the Treasurer in repurchase agreements and certificates of deposit using numerous competitive agents, including banks and brokerage houses in the state, to actively maximize the County's rate of return.

Risk Management. The County is self-insured for workers' compensation in accordance with Article III of the Pennsylvania Workmen's Compensation Act of 1915 as Reenacted and Amended. The liability is recorded as estimated by the plan administrator. The required retention amounts are accrued in a trust fund in accordance with 34 Pa. Code Section 125.10, as a liability of the general fund. The Bureau of Workers' Compensation uses a loss development analysis system to project a self-insurer's outstanding liability for the purpose of setting the required amount of the self-insurer's security or funding. Loss development analysis is an actuarial technique of projecting the ultimate cost of a group of claims by analyzing the past changes in value of similar claims as they mature. The Bureau issued an exemption permit renewing the County's self-insurance status on May 23, 2003. In addition, the County is in compliance with state requirements that mandate training courses designed to minimize accident-related losses.

The County is also self-insured for unemployment compensation. The liability for claims is estimated at two times the average of the benefits paid for the three highest claim years.

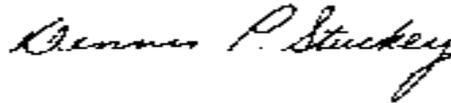
Pension and Other Postemployment Benefits. The County maintains a single-employer contributory defined benefit pension plan with mandatory membership for all full-time County employees. Participants in the Plan contribute 5 percent of their gross pay, with an option of an additional contribution of up to 10 percent of their gross pay. On December 31, 2005, total membership of the Lancaster County Employees' Retirement System was 2,784. The funding policy of this system provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate enough assets to pay benefits when due. During 2005, the County contributed \$7,400,000. Additional information on the County of Lancaster's pension arrangements and postemployment benefits can be found in Note 17 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Lancaster for its comprehensive annual financial report for the year ended December 31, 2004. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized comprehensive annual financial report (CAFR), which conformed to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated services of the Controller's office staff, the cooperation of all County departments, various elected and appointed officials, and the assistance of our independent auditors, Ernst & Young, LLP. We appreciate the contributions made in the preparation of this report.

A handwritten signature in cursive script that reads "Dennis P. Stuckey". The signature is written in black ink and is positioned above the printed name.

Dennis P. Stuckey

Certificate of Achievement for Excellence in Financial Reporting

Presented to
**County of Lancaster,
Pennsylvania**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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



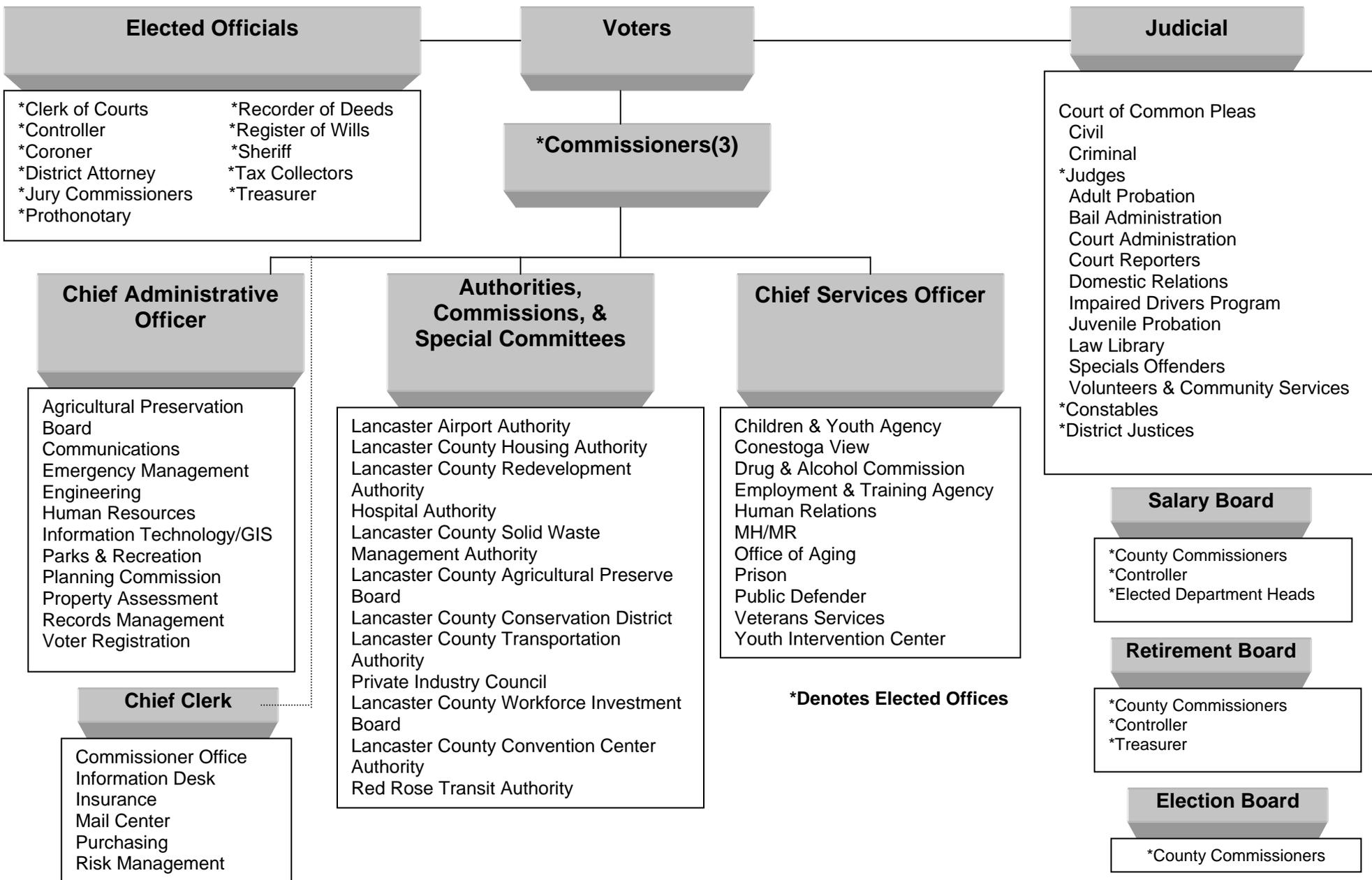
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

LANCASTER COUNTY ORGANIZATIONAL CHART 3RD CLASS COUNTY



2005
County of Lancaster
Elected Officials

COMMISSIONERS

Dick Shellenberger, Chairman
Howard "Pete" Shaub
Molly Henderson

CONTROLLER

Dennis P. Stuckey

TREASURER

Craig Ebersole

PROTHONOTARY

Randall O. Wenger

REGISTER OF WILLS

Donna S. Reinaker

RECORDER OF DEEDS

Stephen J. McDonald

JURY COMMISSIONERS

Judith Saylor
Linda Schwanger

CLERK OF COURTS OF COMMON PLEAS

Dale Denlinger

DISTRICT ATTORNEY

Donald R. Totaro

JUDGES OF COURT OF COMMON PLEAS

Louis J. Farina, President Judge
Paul K. Allison
David L. Ashworth
James P. Cullen
Michael A. Georgelis
Leslie Gorbey
Jay Hoberg
Wayne G. Hummer, Jr.
Henry S. Kenderdine, Jr.
Joseph C. Madenspacher
Michael J. Perezous
David Workman

SHERIFF

Terry Bergman

CORONER

Gary Kirchner, MD

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Report of Independent Auditors

County Commissioners
County of Lancaster

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Lancaster (the County), as of and for the year ended December 31, 2005, 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 unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lancaster County Convention Center Authority discretely presented component unit is based on the report of the other auditor.

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

In our opinion, based on our audit and the report of the other auditor, 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 unit, each major fund, and the aggregate remaining fund information of the County as of December 31, 2005, 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 June 8, 2006 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.

Management's discussion and analysis, the required supplementary schedule of employer contributions for the County of Lancaster, Pennsylvania, Employee Retirement Plan, and the required supplementary schedules of revenues, expenditures, and changes in fund balances – budget and actual – budgetary basis for the General Fund, Children and Youth Services Fund, and Mental Health/Mental Retardation Fund as listed in the Table of Contents 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 auditor 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 fund statements and schedules, and statistical section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



June 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of the County of Lancaster's (County) comprehensive annual financial report presents a narrative overview and analysis of the County's financial performance for the fiscal year ended December 31, 2005. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to financial statements in order to obtain a thorough understanding of the County's financial condition at December 31, 2005.

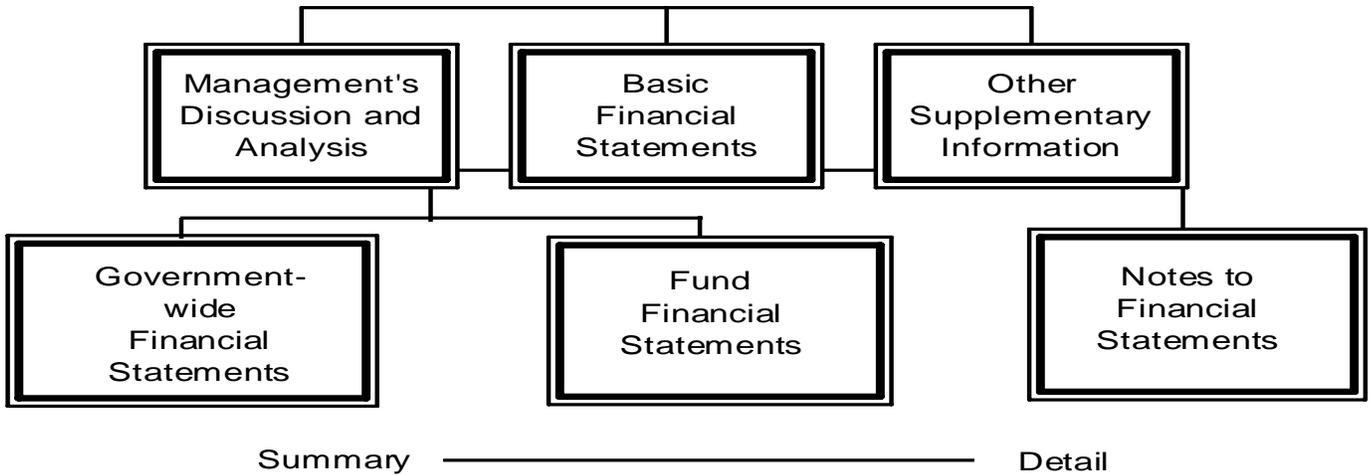
FINANCIAL HIGHLIGHTS

- ◆ The County's real estate property tax rate was 2.962 mills.
- ◆ As of December 31, 2005, Lancaster County had \$20.5 million invested in capital assets, net of related debt pertaining to easements.
- ◆ The County's governmental net assets increased \$5.1 million in 2005, or 51.5%.
- ◆ The County's governmental unrestricted net assets were \$8.1 million at December 31, 2005.
- ◆ The County's bond rating is Aaa/VMIG1
- ◆ At December 31, 2005, the County had \$193.8 million of general obligation debt outstanding. This represents an increase of \$18.1 million, or 10.3%, from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts: management's discussion and analysis, the basic financial statements (including notes to the financial statements), other required supplementary information, and a section that presents combining and individual fund statements and schedules. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. The following diagram shows how the required components of the financial section of this comprehensive annual financial report are arranged and relate to one another.

REQUIRED COMPONENTS OF THE COMPREHENSIVE
ANNUAL FINANCIAL REPORT - FINANCIAL SECTION



The first two basic financial statements are *government-wide financial statements* that provide information about the County's overall financial status, as well as the financial status of the County's component unit. The remaining basic financial statements are *fund financial statements* that focus on major funds of County government, reporting the County's operations in more detail than the government-wide statements. The *fund financial statements* include:

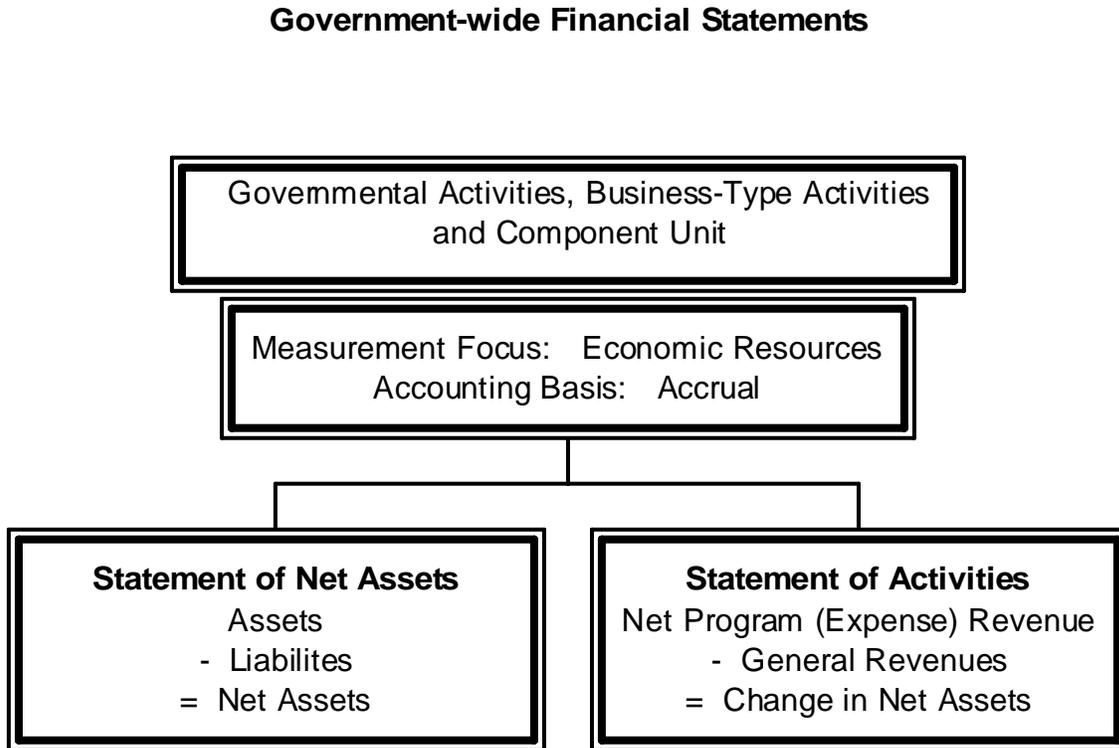
- ◆ *Governmental funds financial statements* which explain how services such as public safety were financed in the short term, as well as what remains for future spending.
- ◆ *Enterprise fund financial statements* offer short-term and long-term financial information about the activities the County operates like a business.
- ◆ *Fiduciary funds financial statements* that reflect activities involving resources that are held by the County as a trustee or agent for parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the County's programs.

The basic financial statements also include notes to the financial statements that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements as well as required supplementary information regarding employee pension contributions and the County's budget for the general fund and each major budgeted special revenue fund. In addition to these required elements, a section is included with combining and individual fund statements that provide particulars about non-major governmental funds.

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the County as a whole and its component unit using accounting methods similar to those used by private-sector companies. The primary features are reflected in the following diagram.



The statement of net assets includes all of the County's assets and liabilities, except fiduciary funds, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business. The statement of activities focuses on how the County's net assets changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid. Net assets is one way to measure the County's financial health, or position. Over time, increases or decreases in the County's net assets are one indicator of whether the County

financial position is improving or deteriorating. However, other non-financial factors such as changes in the County's real property tax base and general economic conditions must be considered to assess the overall position of the County.

The government-wide financial statements of the County are divided into three categories:

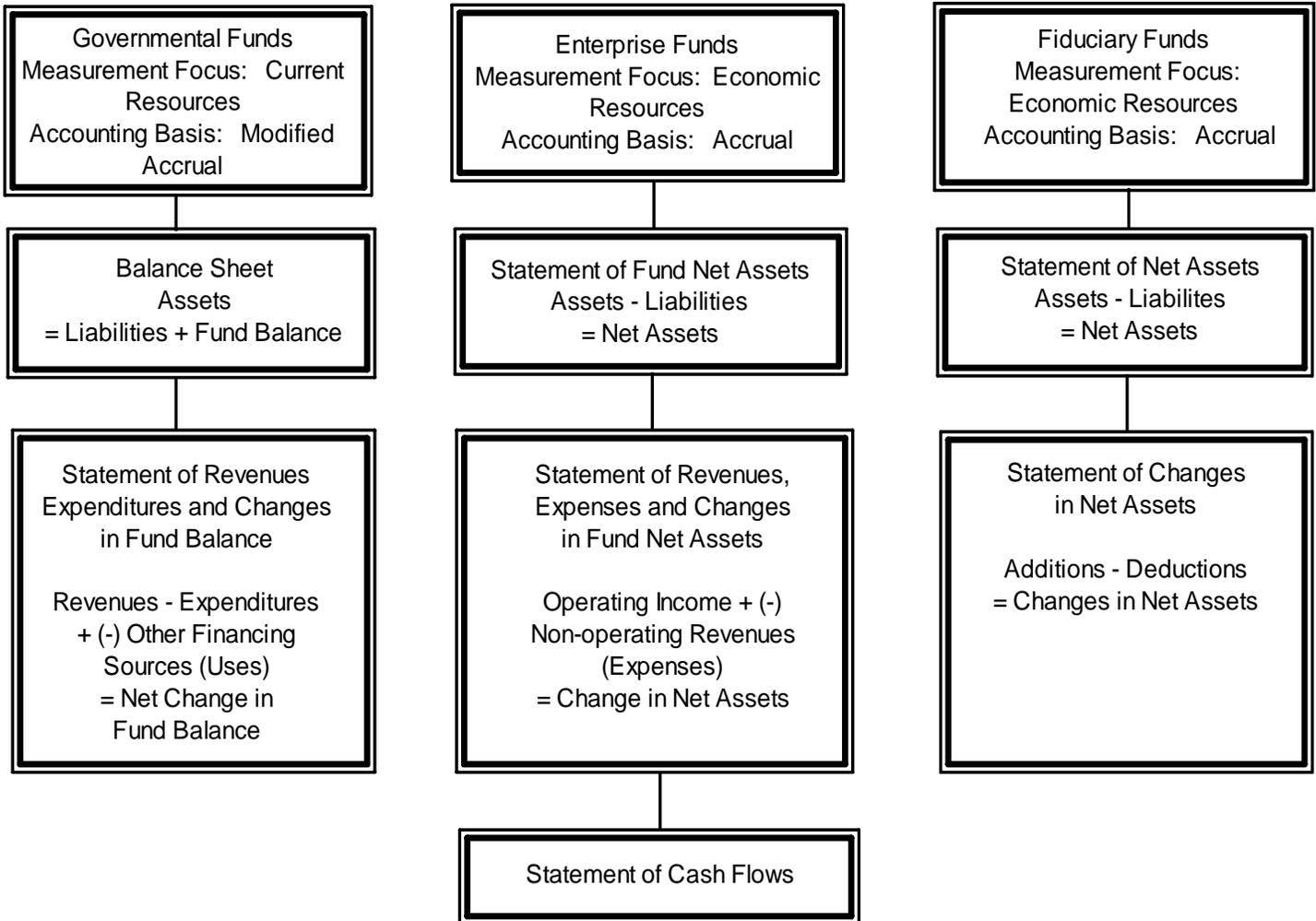
- ◆ *Governmental activities* – Most of the County's basic services are included here, such as public safety, public works, health and welfare and general government administration. Property and other such taxes and state and federal grants are the primary funding source of these activities.
- ◆ *Business-type activities* – The County charges fees to customers to help cover the costs of certain services it provides.
- ◆ *Component Unit* – The County includes one other entity – the Lancaster County Convention Center Authority. *

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County's funds with an emphasis on major funds, not the County as a whole. Funds are accounting groups that the County uses to keep track of specific sources of funding and spending for particular purposes. State law requires some funds while other funds are established to control and manage resources designated for specific purposes. The following diagram presents the major features of the fund financial statements, including the types of information contained therein.

* See separate report as mentioned in the footnotes.

Fund Financial Statements



The County has three types of funds:

- ◆ *Governmental funds* – Most of the County’s basic services are included in governmental funds, which focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and; (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the County’s programs. The County maintains the following major governmental funds: the general fund, Mental Health/Mental Retardation special revenue fund, Children and Youth Services special revenue fund, Agricultural Land Preservation special revenue fund and capital projects fund. The County also maintains seven non-major special revenue funds that are combined into a single aggregated presentation. Because this information does not

encompass the additional long-term focus of the government-wide statements, a detailed reconciliation provides additional information that explains the relationship (or differences) between fund and government-wide financial statements.

- ◆ *Enterprise funds* – Used to report the same functions presented as business-type activities in the government-wide financial statements that provide services for the County’s other programs and activities. The County reports two enterprise funds – the Conestoga View Nursing Home and the 911 operations.
- ◆ *Fiduciary funds* – The County is the trustee, or fiduciary, for its employees’ pension plan. In addition, the County is also responsible for an agency fund, which represents clearing accounts for assets held by the County in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The County is responsible for ensuring that the assets reported in the fund is used for its intended purpose. All of the County’s fiduciary asset and liability balances are reported in the statement of fiduciary net assets. A statement of changes in fiduciary net assets is also presented. All fiduciary activities are excluded from the County’s government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The County is presenting its financial statements as required by Governmental Accounting Standards Board Statement No. 34 (GASB Statement No. 34), “Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) – for State and Local Governments.” The statement of Net Assets and the statement of Activities report information about the County as a whole and about its activities to measure the results of the year’s activities.

NET ASSETS:

The County's net assets as of December 31, 2005 and 2004 are presented below:

Table A-1
County Net Assets as of December 31, 2005
(amounts in millions)

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Capital assets, net*	\$ 155.1	138.5	\$ 1.2	8.3
Other assets	82.0	78.7	.2	3.6
Total assets	237.1	217.2	1.4	11.9
Other liabilities	21.0	23.9	.1	1.2
Long-term liabilities	201.1	183.4	.4	2.5
Total liabilities	222.1	207.3	.5	3.7
Net assets:				
Invested in capital assets, net of related debt*	(4.4)	(4.1)	1.3	8.3
Restricted	11.3	10.4	-	-
Unrestricted	8.1	3.6	(0.4)	(0.1)
Total net assets	\$ 15.0	9.9	\$ 0.9	8.2

Net assets of the County's governmental activities increased by 51.5% to \$15.0 million due to the sale of Conestoga View, the County's nursing home. Of this amount, \$(4.4) million represents the balance of capital related debt in excess of net capital assets, while \$11.3 million is restricted for various purposes. The County has an unrestricted net assets balance of \$8.1 million as of the end of the year.

Net assets of the business-type activities decreased by 89% to \$0.9 million due to the sale of Conestoga View, the County's nursing home. Of this amount, \$1.3 million represents the net balance of long-term capital assets, net of related debt. The unrestricted net assets balance as of the end of the year is \$(0.4) million.

*Capital asset balances include agricultural easements. Prior year amounts reported have been adjusted to reflect this change.

INFRASTRUCTURE ASSETS:

Lancaster County's total assets stand at \$238.5 million as of December 31, 2005. Of this amount, \$156.3 million is accounted for by capital assets, which includes some infrastructure.

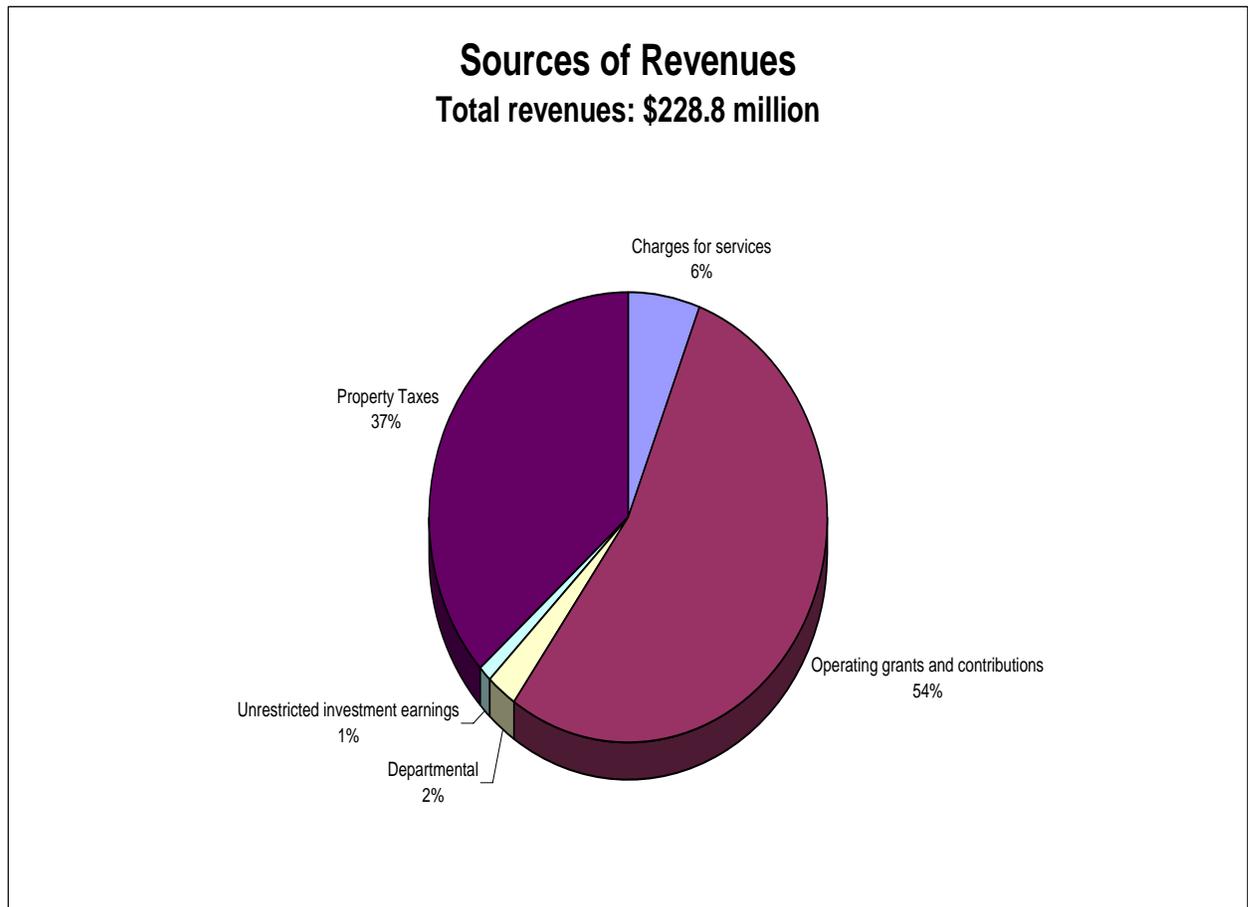
The following table presents the County's changes in net assets for the fiscal year ended December 31, 2005 and 2004:

Table A-2				
County's Changes in Net Assets as of December 31, 2005				
(amounts in millions)				
	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Revenues:				
Program revenues:				
Charges for services	\$ 13.6	10.4	\$ 25.7	36.3
Operating grants and Contributions	123.0	116.3	-	-
General revenues:				
Property taxes	84.0	76.9	-	-
Departmental revenues	5.6	7.5	-	-
Unrestricted investment Earnings	2.6	1.3	-	-
Gain on sale of Capital assets			1.5	
Total revenues	228.8	212.4	27.2	36.3
Expenses:				
General government	52.0	41.8	-	-
Public safety	2.2	1.8	-	-
Roads and bridges	0.2	0.5	-	-
Health, education, and welfare	107.6	100.9	-	-
Judicial	33.7	31.3	-	-
Corrections	17.6	16.8	-	-
Cultural and recreation	2.7	2.8	-	-
Community development	5.8	5.7	-	-
Interest on long-term debt	6.8	5.6	-	-
Conestoga View	-	-	22.0	32.8
911 operations	-	-	7.6	7.3
Total expenses	228.6	207.2	29.6	40.1
Increase in net assets				
before transfers	0.2	5.3	(2.4)	(3.8)
Transfers	4.9	(3.8)	(4.9)	3.8
Change in Net Assets	5.1	1.5	(7.3)	0.0
Net assets - beginning	9.9	8.4	8.2	8.2
Net assets - ending	\$ 15.0	9.9	\$ 0.9	8.2

The increase of \$5.1 million in the governmental activities net assets was mainly the result of the sale of Conestoga View, the County's nursing home. The business-type activities net assets decreased by \$7.3 million mainly due to the sale of Conestoga View to Conestoga View Nursing, L.P. on September 30, 2005 for \$8,500,000, which, after payment of real estate transfer tax associated with the sale, resulted in proceeds from the sale equaling \$8,415,000.

GOVERNMENTAL ACTIVITIES:

The following chart graphically depicts the sources of revenues for the fiscal year ended December 31, 2005:



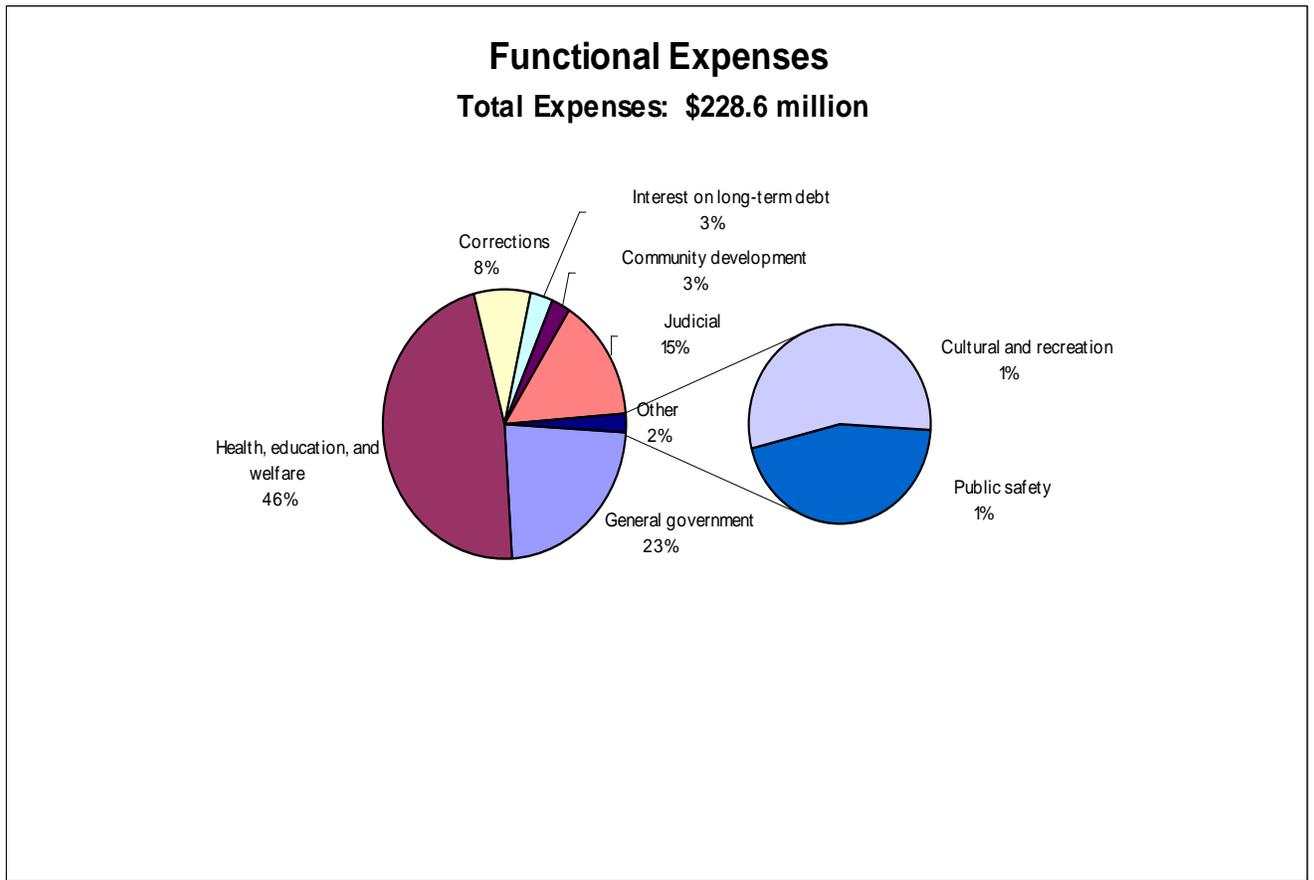
Total government-wide revenues of \$228.8 million were derived primarily from operating grants and contributions, representing 54% of the total. Property taxes made up the second largest source of revenue at 37%, followed by charges for services at 6%, departmental revenue at 2%, and unrestricted investment earnings at 1%.

BUSINESS-TYPE ACTIVITIES:

Total business-type revenues of \$27,202,001 were derived primarily from charges for sales and services and the sale of capital assets, \$23,349,694 coming from Conestoga View, and \$3,852,307 coming from 911 operations.

GOVERNMENTAL ACTIVITIES:

The following chart graphically depicts the functional expenses for the fiscal year ended December 31, 2005:



Total expenses for all programs in 2005 were \$228.6 million. The expenses cover a wide range of services, with the largest being health, education, and welfare at 46%. The second largest program area was general government at 23%, followed by judicial at 15%, corrections at 8%, community development at 3%, interest on long-term debt at 3%, and other (cultural and recreation and public safety) at 2%.

BUSINESS-TYPE ACTIVITIES:

Total expenses in 2005 were \$29,657,086. Conestoga View comprised \$21,980,881 or 74.0% of the total, incurring depreciation expense of \$640,124. The balance of \$21,340,757 was spent on nursing home operations. 911 operations comprised \$7,676,205 or 26.0% of the total, incurring depreciation expense of \$169,259. The balance of \$7,506,946 was spent on public safety operations.

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 General Fund, Children and Youth Services special revenue fund, Mental Health/Mental Retardation special revenue fund, Agricultural Land Preservation special revenue fund, and Capital Projects fund make up the County's major governmental funds. The focus of the 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/undesignated fund balance may serve as a useful measure of the County's net resources available for spending at the end of the year.

At December 31, 2005, the General Fund reported a fund balance of \$17.2 million, which was a \$6.2 million or 56.4% increase over the previous year's balance of \$11.0 million. Revenues increased from \$99.7 million to \$108.9 million, a \$9.2 million or 9.2% increase. Property taxes increased by \$8.1 million as a result of the implementation of a countywide reassessment and normal growth in the County's tax base. Expenditures increased from \$84.9 million to \$97.3 million as reported, which was a \$12.4 million or 14.6% increase. Interest and fiscal charges increased by \$1.5 million due to new bond issuances in 2005.

The fund balance in Children and Youth Services special revenue fund decreased to \$1.9 million at December 31, 2005, from \$2.3 million, a \$0.4 million or 17.4% decrease. Revenues decreased from \$34.2 million to \$33.4 million, a decrease of \$0.8 million or 2.3%. Expenditures remained the same at \$40.8 million. All of these decreases were the result of a decrease in the funding for the Temporary Assistance for Needy Families (TANF) program for the period 7/1/05 thru 12/31/05.

The Mental Health/Mental Retardation special revenue fund has no fund balance to report. Revenues in this fund increased to \$58.3 million from \$50.9 million, an increase of \$7.4 million or 14.5%. Expenditures increased from \$51.8 million to \$59.4 million, a \$7.6 million or 14.7% increase. The increases were the result of increased funding within existing grants.

The Agricultural Land Preservation special revenue fund became a major fund in 2003. There is no fund balance to report for the Agricultural Land Preservation special revenue fund as of December 31, 2005.

The fund balance in the Capital Projects fund at December 31, 2005, was \$24.7 million, up from \$23.9 million the previous year. This represents an increase of \$0.8 million or 3.3%. Revenues increased to \$1.1 million from \$0.5 million the previous year, an increase of \$0.6 million or 120.0%. Expenditures increased to \$23.6 million, an increase of \$14.3 million or 153.8% from the amount spent in the previous year of \$9.3 million. The increase in the fund balance is the result of new bonds being issued during the year. The increase in both revenues and expenditures is also the result of the new bond issues.

ENTERPRISE FUNDS:

The County's enterprise funds provide the same type of information found in the government-wide financial statements but in more detail.

Net assets of Conestoga View, the County's nursing home, at the end of the year amounted to \$0 due to the sale of the facility to Conestoga View Nursing, L.P, on September 30, 2005. Net assets for the 911 emergency telephone operations amounted to \$0.9 million. The change in net assets for each fund was (\$7.0) million and (\$0.3) million respectively. Other factors concerning the finances of these two funds mirror those highlighted in the analysis of the County's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board of Commissioners revised the County budget several times. These budget amendments fall into two categories:

- Amendments to appropriations approved shortly after the beginning of the year to reflect budget carryovers from the prior year.
- Increases in appropriations based on supplemental funding sources.

The County's original revenue budget increased from \$116.5 million to \$122.2 million, an increase of \$5.7 million or 4.9%. Actual revenues received totaled \$122.0 million or 99.8% of the final budget. Intergovernmental revenues fell \$9.3 million short of the final budgeted amounts as a result of anticipated grants not being received. This amount was also reflected in decreased grant expenditures.

The County's original operating expenditure budget, excluding transfers, increased from \$113.6 million to \$119.6 million, an increase of \$6.0 million or 5.3%. Actual expenditures were \$105.1 million or 87.9% of the final budget due to cost saving measures implemented in 2005.

Differences between the original general fund budget and the final amended budget were primarily the result of increasing the budget due to an increase in appropriations based on supplemental funding sources.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS:

The County's investment in capital assets at December 31, 2005, net of accumulated depreciation, amounted to \$156.3 million. This represented an increase of \$9.5 million or 6.5% over the previous years total of \$146.8 million. Capital assets consist primarily of land and improvements, buildings and improvements, furniture and equipment, assets under capital lease, construction in progress, infrastructure and easements. The following is a summary of capital assets at December 31, 2005 and 2004:

Summary of Capital Assets

	Governmental		Business-Type		Balance at December 31, 2005	Balance at December 31, 2004
	Activities		Activities			
	2005	2004	2005	2004		
Land and land improvements	\$5,853,180	\$5,786,227	\$7,642	\$589,530	\$5,860,822	\$6,375,757
Buildings and improvements	114,857,947	104,461,393	263,513	6,852,203	115,121,460	111,313,596
Furniture and Equipment	23,322,270	22,409,585	2,562,083	14,522,331	25,884,353	36,931,916
Assets under capital lease	1,371,165	1,371,165			1,371,165	1,371,165
Construction in Progress						
Infrastructure	5,938,380	5,480,543			5,938,380	5,480,543
Easements	55,754,711	45,704,954			55,754,711	45,704,954
Less accumulated Deprec/Amort	<u>(52,036,587)</u>	<u>(46,680,887)</u>	<u>(1,580,792)</u>	<u>(13,694,048)</u>	<u>(53,617,379)</u>	<u>(60,374,935)</u>
Total	<u>\$155,061,066</u>	<u>\$138,532,980</u>	<u>\$1,252,446</u>	<u>\$8,270,016</u>	<u>\$156,313,512</u>	<u>\$146,802,996</u>

In the governmental activities, buildings and improvements increased by \$10.4 million. This is the result of the County's purchase of a building at 150 North Queen Street in the city of Lancaster to help solve its long-term space needs.

In the business activities, buildings and improvements decreased by \$6.6 million and furniture and equipment decreased by \$11.9 million. These decreases are the result of the sale of Conestoga View the County's nursing home on September 30, 2005 to Conestoga View Nursing, L.P.

The total capital assets for the governmental activities and business-type activities increased from \$146.8 million to \$156.3 million, an overall increase of \$9.5 million or 6.5%. Of this increase, \$16.5 million occurred within governmental activities and (\$7.0) million occurred within business-type activities.

More detailed information about the County's capital assets can be found in Note 7 of the notes to the financial statements.

LONG-TERM DEBT:

At December 31, 2005, the County had \$193.8 million of general obligation bonds and notes outstanding. This was an increase of \$18.1 million, or 10.3%, from the previous year. The following details activity related to general obligation bonds during 2005:

Summary of General Obligation Bond and Note Activity

Beginning balance at 1/1/2005	\$ 175,662,072
Accretion adjustment	1,245,384
Debt issued	23,775,000
Less principal refunded	0
Less principal payments	<u>(6,880,000)</u>
Ending balance at 12/31/2005	<u>\$ 193,802,456</u>

BOND RATING:

The General Obligation Bond (G.O.B.) Series 2005 issue carries municipal bond insurance policy from Financial Security Assurance Inc. (FSA) which assures payment of the respective principal and interest to the registered owners of the bonds. Moody's Investors Service rated the G.O.B. Series 2005 Aaa/VMIG1 based upon an insurance policy provided by FSA.

More detailed information about the County's long-term debt can be found in Note 9 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The key economic factors affecting the County include the following:

- The County's population grew by 3,230 or .7% during 2005. The population has consistently grown within this range over the past decade and the vast majority of the County's residents succeed in finding employment.
- The County's unemployment rate stands at 3.6%, which is a 5.3% decrease over the previous year's rate of 3.8%. This rate compares favorably with the State's rate of 4.7% and the national rate of 4.9%.

These factors were considered in preparing the County's 2006 budget. Amounts available for appropriation in the general fund budget are \$125.0 million, an increase of 6.8% over the final 2005 budget of \$117.0. Real estate taxes were budgeted to increase by \$2.3 million as the result of normal growth in real estate. The real estate property tax rate remained at 2.962 mills for 2006.

Budgeted operating expenditures, excluding transfers, have increased 13.8% to \$130.4 million. The largest increments are increased wages and an increase in the County's debt payments. The County issued \$51,285,000 in new general obligation bonds during 2006.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability. Questions concerning this report or requests for additional information should be directed to:

Lancaster County Controller's Office
County of Lancaster, Pennsylvania
50 North Duke Street
Lancaster, PA 17603

Basic Financial Statements

County of Lancaster, Pennsylvania

Statement of Net Assets

December 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Lancaster County Convention Center Authority as of March 31, 2005
ASSETS				
Cash and temporary investments:				
Operating	\$ 56,444,132	\$ -	\$ 56,444,132	\$ 783,350
Other	913,612		913,612	
Investments	2,199,234		2,199,234	
Receivables:				
Room rental tax			-	339,501
Taxes, net of allowance for uncollectibles of \$70,727	2,286,828		2,286,828	
Fines and costs, net of allowance for uncollectibles of \$14,104,607	4,588,947		4,588,947	
Accounts	336,623		336,623	
Due from other governments	7,596,319		7,596,319	
Advances to providers and other governments	2,217,563		2,217,563	
Other	559,105		559,105	145,295
Telephone subscriber		183,813	183,813	
Deferred charge:				
Issuance costs for Governmental Activities (net of accumulated amortization of \$633,451)	2,048,858		2,048,858	436,944
Restricted cash	2,892,661		2,892,661	39,353,383
Capital assets not being depreciated/amortized:				
Land and improvements	5,853,180	7,642	5,860,822	3,692,769
Construction in progress				236,461
Capital assets being depreciated/amortized:				
Buildings and improvements	114,857,947	263,513	115,121,460	
Furniture and equipment	23,322,270	2,562,083	25,884,353	8,451
Assets under capital lease	1,371,165		1,371,165	
Infrastructure	5,938,380		5,938,380	
Easements	55,754,711		55,754,711	
Less accumulated depreciation/amortization	(52,036,587)	(1,580,792)	(53,617,379)	(1,409)
Total capital assets, net	155,061,066	1,252,446	156,313,512	3,936,272
Total assets	237,144,948	1,436,259	238,581,207	44,994,745
LIABILITIES				
Accounts payable	9,484,708	38,313	9,523,021	891,580
Contracts payable	3,867,871		3,867,871	
Retainage payable	97,959		97,959	
Accrued interest payable	1,017,853		1,017,853	206,435
Unearned income	2,729,632		2,729,632	
Payroll related accruals	3,786,469	95,669	3,882,138	2,989
Long-term liabilities:				
Due within one year	7,939,832	1,708	7,941,540	2,100,000
Due in more than one year	193,195,596	426,198	193,621,794	40,000,000
Total liabilities	222,119,920	561,888	222,681,808	43,201,004
NET ASSETS				
Invested in capital assets, net of related debt	(4,430,120)	1,252,446	(3,177,674)	1,836,272
Restricted for:				
Federal and state grant programs	10,731,107		10,731,107	
Community development	565,928		565,928	
Unrestricted	8,158,113	(378,075)	7,780,038	(42,531)
Total net assets	\$ 15,025,028	\$ 874,371	\$ 15,899,399	\$ 1,793,741

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

County of Lancaster, Pennsylvania
Statement of Activities

For the Year Ended December 31, 2005

	Net (Expense) Revenue and Changes in Net Assets						Component Unit: Lancaster County Convention Center Authority
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Functions/Programs							
Primary Government:							
Governmental activities:							
General government	\$ 51,954,353	\$ 5,697,547	\$ 3,101,614	\$ (43,155,192)	\$ -	\$ (43,155,192)	\$ -
Public safety	2,201,133	498,421	206,750	(1,495,962)	-	(1,495,962)	-
Roads and bridges	167,029		856,450	689,421	-	689,421	-
Health, education, and welfare:							
Drug and alcohol	4,881,941		4,834,617	(47,324)	-	(47,324)	-
Employment and training	3,407,431		3,472,330	64,899	-	64,899	-
Mental health/mental retardation	57,953,125		56,978,003	(975,122)	-	(975,122)	-
Office of aging	7,302,485		7,616,767	314,282	-	314,282	-
Children and Youth	33,317,014		31,518,278	(1,798,736)	-	(1,798,736)	-
Other	764,236		1,049,008	284,772	-	284,772	-
Judicial	33,702,922	7,054,409	7,510,499	(19,138,014)	-	(19,138,014)	-
Corrections	17,648,560	79,513	33,611	(17,535,436)	-	(17,535,436)	-
Cultural and recreation	2,735,472	272,849	1,440	(2,461,183)	-	(2,461,183)	-
Community development	5,836,419		5,836,419	-	-	-	-
Interest on long-term debt	6,751,272			(6,751,272)	-	(6,751,272)	-
Total governmental activities	228,623,392	13,602,739	123,015,786	(92,004,867)	-	(92,004,867)	-
Business-type activities:							
Conestoga View	21,980,881	21,845,148		(135,733)	-	(135,733)	-
911 Operations	7,676,205	3,838,005		(3,838,200)	-	(3,838,200)	-
Total business-type activities	29,657,086	25,683,153		(3,973,933)	-	(3,973,933)	-
Total primary government	\$ 258,280,478	\$ 39,285,892	\$ 123,015,786	\$ (92,004,867)	\$ (3,973,933)	\$ (95,978,800)	\$ -
Component unit:							
Convention Center	\$ 4,634,764	\$ -	\$ -				(4,634,764)
Total component unit	\$ 4,634,764	\$ -	\$ -				(4,634,764)
General Revenues:							
Property taxes				84,055,960		84,055,960	
Departmental revenues				5,603,378		5,603,378	
Unrestricted investment earnings				2,619,881	14,302	2,634,183	610,845
Room rental tax							3,176,051
Transfers				4,892,962	(4,892,962)	-	-
Gain on sale of capital assets				1,504,546	1,504,546	1,504,546	
Total general revenues, transfers, and special item				97,172,181	(3,374,114)	93,798,067	3,786,896
Change in net assets				5,167,314	(7,348,047)	(2,180,733)	(847,866)
Net assets - beginning				9,857,714	8,222,418	18,080,132	2,641,609
Net assets - ending				\$ 15,025,028	\$ 874,371	\$ 15,899,399	\$ 1,793,741

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

County of Lancaster, Pennsylvania
Balance Sheet - Governmental Funds

December 31, 2005

	General	Children and Youth Services	Mental Health/Mental Retardation	Agricultural Land Preservation	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and temporary investments:							
Operating	\$16,206,872	\$1,979,281	\$2,617,112	\$2,375,418	\$24,999,118	\$8,266,331	\$56,444,132
Other	2,892,661	5,450	237,845		354,760	315,557	3,806,273
Investments	1,164			401,553		1,796,517	2,199,234
Receivables:							
Taxes	2,357,555						2,357,555
Less allowance for uncollectible taxes	(70,727)						(70,727)
Fines and costs	18,693,554						18,693,554
Less allowance for uncollectible fines and costs	(14,104,607)						(14,104,607)
Accounts	336,623						336,623
Due from other funds	397,649						397,649
Due from other governments	2,701,610	2,793,234				2,101,475	7,596,319
Advances to providers	67,667		2,145,220			4,676	2,217,563
Other		17,989		14,764	526,322		559,105
Total assets	\$ 29,480,021	\$ 4,795,964	\$ 5,000,177	\$ 2,791,755	\$ 25,880,200	\$ 12,484,556	\$ 80,432,673

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable	\$ 2,856,449	\$ 1,825,488	\$ 3,636,986	\$ -	\$ -	\$ 1,165,785	\$ 9,484,708
Contracts payable				2,791,755	1,076,116		3,867,871
Retainage payable					97,959		97,959
Due to other funds						397,649	397,649
Deferred revenue - taxes, fines and costs receivable	5,623,839						5,623,839
Unearned revenue	471,539	845,339	1,229,642			183,112	2,729,632
Payroll related accruals	3,317,397	175,506	133,549			160,017	3,786,469
Total liabilities	12,269,224	2,846,333	5,000,177	2,791,755	1,174,075	1,906,563	25,988,127
Fund balances:							
Reserved for advances	67,667					4,676	72,343
Unreserved:							
Designated for debt service	2,035,073					1,796,517	3,831,590
Designated for programmatic expenditures		1,949,631				8,776,800	10,726,431
Undesignated	15,108,057				24,706,125		39,814,182
Total fund balances	17,210,797	1,949,631			24,706,125	10,577,993	54,444,546
Total liabilities and fund balances	\$ 29,480,021	\$ 4,795,964	\$ 5,000,177	\$ 2,791,755	\$ 25,880,200	\$ 12,484,556	\$ 80,432,673

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported as assets in the governmental funds.
Certain receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Long-term liabilities, including general obligation bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Total net assets of governmental activities

155,061,066
5,623,839
(200,104,423)
\$15,025,028

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

County of Lancaster, Pennsylvania

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

For the Year Ended December 31, 2005

	General	Children and Youth Services	Mental Health/Mental Retardation	Agricultural Land Preservation	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES							
Real estate taxes	\$83,776,893	\$ -	\$ -	\$ -	\$ -	\$ -	\$83,776,893
Intergovernmental	8,537,483	31,518,278	56,978,003			25,982,022	123,015,786
Departmental	12,227,861	1,932,060	56,670			150,696	14,367,287
Fines and costs	2,727,025						2,727,025
Interest	1,188,966	403	181,942		997,553	251,017	2,619,881
Other	490,010	19,350	287,116		55,046	110,841	962,363
Health Choices revenues			793,991				793,991
Total revenues	108,948,238	33,470,091	58,297,722	-	1,052,599	26,494,576	228,263,226
EXPENDITURES							
Current:							
General government	33,652,445				11,695,937		45,348,382
Public safety	1,100,204						1,100,204
Health, education, and welfare:							
Drug and alcohol						5,145,200	5,145,200
Employment and training						3,463,807	3,463,807
Mental health/mental retardation			59,222,803				59,222,803
Office of aging						7,917,165	7,917,165
Children and youth		40,742,045					40,742,045
Other	736,416						736,416
Judicial	30,620,668					4,376,095	34,996,763
Corrections	16,640,060						16,640,060
Cultural and recreation	2,486,594						2,486,594
Community development		65,853	128,675		11,586,678		5,836,419
Capital outlay	716,577					460,336	12,958,119
Debt Service:							
Principal retirement	4,730,944					2,845,000	7,575,944
Interest and fiscal charges	6,663,917						6,663,917
Bond issuance costs	-				352,037		352,037
Total expenditures	97,347,825	40,807,898	59,351,478	-	23,634,652	30,044,022	251,185,875
Excess (deficiency) of revenues over (under) expenditures	11,600,413	(7,337,807)	(1,053,756)	-	(22,582,053)	(3,549,446)	(22,922,649)
OTHER FINANCING SOURCES (USES)							
Transfers in	8,850,561	6,964,295	1,053,756			2,669,507	19,538,119
Transfers out	(14,251,827)				(393,330)		(14,645,157)
Face amount of bonds issued					23,775,000		23,775,000
Total other financing sources (uses)	(5,401,266)	6,964,295	1,053,756	-	23,381,670	2,669,507	28,667,962
Net change in fund balances	6,198,147	(373,512)	-	-	799,617	(879,939)	5,745,313
Fund balances, January 1	11,011,650	2,323,143	-	-	23,906,508	11,457,932	48,699,233
Fund balances, December 31	\$17,210,797	\$1,949,631	\$ -	\$ -	\$24,706,125	\$10,577,993	\$54,444,546

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

County of Lancaster, Pennsylvania

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

For the Year Ended December 31, 2005

Net change in fund balances - total governmental funds (page 33)	5,745,313
The change in net assets reported for <i>governmental activities</i> in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost 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 expense in the current period.	7,872,198
Governmental funds report outlays for easements (capital assets) as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as amortization expense. This is the amount by which easement outlays exceeded amortization expense in the current period.	8,655,889
Revenues that provide current financial resources in the governmental funds are unearned in the statement of activities.	634,518
The issuance of long-term debt (i.e., bonds, capital leases) 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.	(17,444,440)
Also, 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.	351,134
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(647,298)</u>
Change in net assets of governmental activities (page 31)	<u><u>\$5,167,314</u></u>

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

County of Lancaster, Pennsylvania
Statement of Fund Net Assets - Enterprise Funds
December 31, 2005

	Conestoga View	Non-Major Fund - 911 Operations	Total
ASSETS			
Current assets:			
Telephone subscriber receivable	\$ -	\$ 183,813	\$ 183,813
Total current assets	-	183,813	183,813
Noncurrent assets:			
Capital assets:			
Land and improvements	-	7,642	7,642
Buildings and improvements	-	263,513	263,513
Furniture and equipment	-	2,562,083	2,562,083
Less accumulated depreciation	-	(1,580,792)	(1,580,792)
Total capital assets, net	-	1,252,446	1,252,446
Total noncurrent assets	-	1,252,446	1,252,446
Total assets	-	1,436,259	1,436,259
LIABILITIES			
Current liabilities:			
Accounts payable	-	38,313	38,313
Payroll related accruals	-	95,669	95,669
Accrued vacation and sick pay	-	1,708	1,708
Total current liabilities	-	135,690	135,690
Noncurrent liabilities:			
Accrued vacation and sick pay	-	232,383	232,383
Net pension obligation	-	193,815	193,815
Total noncurrent liabilities	-	426,198	426,198
Total liabilities	-	561,888	561,888
NET ASSETS			
Invested in capital assets	-	1,252,446	1,252,446
Unrestricted (deficit)	-	(378,075)	(378,075)
Total net assets	\$ -	\$ 874,371	\$ 874,371

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

County of Lancaster, Pennsylvania

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

For the Year Ended December 31, 2005

	Conestoga View	Non-Major Fund - 911 Operations	Total
Operating revenues:			
Charges for sales and services:			
Net patient service revenue	\$ 21,727,207	\$ -	\$ 21,727,207
Telephone subscriber revenues	-	3,836,605	3,836,605
Other	117,941	1,400	119,341
Total operating revenues	21,845,148	3,838,005	25,683,153
Operating expenses:			
Administration	914,597	-	914,597
Nursing	12,218,380	-	12,218,380
Dietary	2,253,041	-	2,253,041
Housekeeping	1,279,159	-	1,279,159
Medical Services	69,817	-	69,817
Operations and maintenance	1,199,135	-	1,199,135
Pharmacy	471,667	-	471,667
Laundry	639,243	-	639,243
Recreation therapy	433,020	-	433,020
Admissions	80,931	-	80,931
Staff development	237,676	-	237,676
Barber and beautician	72,255	-	72,255
Personnel	225,285	-	225,285
Physical therapy	396,400	-	396,400
Social services	384,472	-	384,472
Volunteers	35,877	-	35,877
Depreciation	640,124	169,259	809,383
Security	209,195	-	209,195
Respiratory	220,607	-	220,607
Public safety	-	7,506,946	7,506,946
Total operating expenses	21,980,881	7,676,205	29,657,086
Operating income (loss)	(135,733)	(3,838,200)	(3,973,933)
Nonoperating revenues:			
Gain on sale of capital assets	1,504,546	-	1,504,546
Interest revenue	-	14,302	14,302
Income (loss) before transfers	1,368,813	(3,823,898)	(2,455,085)
Transfers in	-	3,517,680	3,517,680
Transfers out	(8,410,642)	-	(8,410,642)
Change in net assets	(7,041,829)	(306,218)	(7,348,047)
Total net assets, January 1	7,041,829	1,180,589	8,222,418
Total net assets, December 31	\$ -	\$ 874,371	\$ 874,371

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

County of Lancaster, Pennsylvania
Statement of Cash Flows - Enterprise Funds
For the Year Ended December 31, 2005

	Conestoga View	Non-Major Fund - 911 Operations	Total
Cash flows from operating activities:			
Cash received on patient accounts	\$ 25,189,658	\$ -	\$ 25,189,658
Cash received from departmental revenues	-	4,022,891	4,022,891
Cash payments to suppliers for goods and services	(5,926,923)	(2,040,079)	(7,967,002)
Cash payments to employees for services	(12,957,761)	(4,087,141)	(17,044,902)
Cash payments for taxes	(1,042,608)	(312,536)	(1,355,144)
Cash payments for employee benefits	(4,301,404)	(1,110,608)	(5,412,012)
Other operating revenues	117,941	1,400	119,341
Net cash provided by (used in) operating activities	<u>1,078,903</u>	<u>(3,526,073)</u>	<u>(2,447,170)</u>
Cash flows from noncapital financing activities:			
Transfers from other funds	-	3,517,680	3,517,680
Transfers to other funds	(8,410,642)	-	(8,410,642)
Transfers to cover prior year cash deficit	(544,638)	-	(544,638)
Net cash provided by (used in) noncapital financing activities	<u>(8,955,280)</u>	<u>3,517,680</u>	<u>(5,437,600)</u>
Cash flows from capital and related financing activities:			
Sales of capital assets	8,415,000	20,477	8,435,477
Purchases of capital assets	(696,358)	(26,386)	(722,744)
Net cash provided by (used in) capital and related financing activities	<u>7,718,642</u>	<u>(5,909)</u>	<u>7,712,733</u>
Cash flows from investing activities:			
Interest received	-	14,302	14,302
Net cash provided by (used in) investing activities	<u>-</u>	<u>14,302</u>	<u>14,302</u>
Net decrease in cash and cash equivalents	(157,735)	-	(157,735)
Cash and cash equivalents, January 1	157,735	-	157,735
Cash and cash equivalents, December 31	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating income (loss)	(135,733)	(3,838,200)	(3,973,933)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	640,124	169,259	809,383
Changes in assets and liabilities:			
Other receivables	-	186,286	186,286
Due from other governments	3,620,186	-	3,620,186
Accounts payable	(559,260)	(41,823)	(601,083)
Accrued expenses	(2,038,650)	(5,715)	(2,044,365)
Patient funds held in safekeeping	(157,735)	-	(157,735)
Other liabilities	(290,029)	4,120	(285,909)
Total adjustments	<u>1,214,636</u>	<u>312,127</u>	<u>1,526,763</u>
Net cash provided by (used in) operating activities	<u>\$ 1,078,903</u>	<u>\$ (3,526,073)</u>	<u>\$ (2,447,170)</u>

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

County of Lancaster, Pennsylvania
Statement of Fiduciary Net Assets - Fiduciary Funds

December 31, 2005

	Pension Trust Fund	Agency Fund
ASSETS		
Cash and temporary investments-operating	\$ 10,725,266	\$ 9,422,846
Accounts receivable	819,412	-
	11,544,678	9,422,846
Investments, at fair value:		
U.S. Government securities	2,577,914	-
U.S. Government agency-mortgage backed securities	27,223,955	-
Domestic corporate bonds	10,559,208	-
Mutual funds	22,860,132	-
Collateralized mortgage obligations	1,073,368	-
Domestic common stock	50,954,674	-
International equity fund	21,352,290	-
Total investments	136,601,541	-
Total assets	148,146,219	9,422,846
LIABILITIES		
Deposits and advances	-	1,479,922
Escrow liability	-	3,050,853
Due to other governments	-	3,789,887
Other liabilities	-	1,102,184
Total liabilities	-	9,422,846
NET ASSETS		
Held in trust for pension benefits	\$ 148,146,219	\$ -

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

County of Lancaster, Pennsylvania
Statement of Changes in Fiduciary Net Assets - Pension Trust Fund
For the Year Ended December 31, 2005

ADDITIONS

Contributions:	
Employer	\$ 7,400,000
Plan members	4,612,779
Total contributions	<u>12,012,779</u>

Investment income:

Net appreciation in fair value of investments	5,804,598
Interest and dividends	3,155,704
Less investment expenses	420,344
Net investment income	<u>8,539,958</u>
Total additions	<u>20,552,737</u>

DEDUCTIONS

Benefits paid to plan members and beneficiaries	5,831,356
Refunds of contributions paid to plan members and beneficiaries	2,484,678
Administrative expenses	49,902
Total deductions	<u>8,365,936</u>
Change in net assets	12,186,801

Net assts held in trust for pension benefits, January 1	<u>135,959,418</u>
Net assets held in trust for pension benefits, December 31	<u>\$ 148,146,219</u>

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

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County of Lancaster, Pennsylvania

Notes to Financial Statements

December 31, 2005

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

In evaluating how to define the County of Lancaster for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 39, "The Reporting Entity." GASB Statement No. 39 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Conditions that would indicate the ability to impose will by the primary government include, but are not limited to, the primary government's ability to remove appointed members of the organization's governing board at will, the ability to modify or approve the budget of the organization, the ability to modify or approve rate or fee changes affecting revenues, the ability to veto, overrule, or modify the decisions of the organization's governing body, and the ability to appoint, hire, reassign, or dismiss management of the organization. Conditions that would indicate the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government include, but are not limited to, the legal entitlement or access by the primary government to the organization's resources, legal obligation by the primary government to finance the deficits of or provide financial support to the organization, and the obligation by the primary government for the debt of the organization. Based upon the application of these criteria, one entity met the requirements to be included in the County's reporting entity.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Component Unit

The Lancaster County Convention Center Authority (the Convention Center Authority) was formed on September 15, 1999 under the Municipal Authority Act of 1945 and the Third Class County Convention Center Authority Act. The purpose of the Convention Center Authority is to provide financing and arrange for the development, construction, and operation of the convention center facility for the public purpose of promoting, attracting, stimulating, developing, and expanding business, industry, commerce, and tourism in the Commonwealth.

The Convention Center Authority is a discretely presented component unit of the County. The County established a hotel room rental tax and, therefore, the Convention Center Authority is fiscally dependent on the hotel room rental tax rate, which provides substantially all of the Convention Center Authority's operating revenues.

Complete financial statements of this component unit can be requested from the County Controller's Office of Lancaster County, 50 North Duke Street, P.O. Box 83480, Lancaster, Pennsylvania 17608-3480.

RELATED ORGANIZATIONS. The County's Board of Commissioners is responsible for appointing some of the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. These organizations include:

- Lancaster County Redevelopment Authority (the Redevelopment Authority)
- Lancaster Airport Authority
- Lancaster County Hospital Authority
- Lancaster County Housing Authority
- Lancaster County Solid Waste Management Authority
- Lancaster City and County Joint Transfer System (Red Rose Transit Authority)
- Lancaster County Conservation District
- Lancaster County Private Industry Council
- Lancaster County Transportation Authority
- Lancaster County Workforce Investment Board
- Capital Area Behavioral Health Collaborative, Inc

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Jointly Governed Organization

Capital Area Behavioral Health Collaborative, Inc is a private, not-for-profit company formed out of the collaboration among Cumberland, Dauphin, Lancaster, Lebanon and Perry Counties' programs of Mental Health and Drug and Alcohol. The Capital Area Behavioral Health Collaborative, Inc.'s mission is to ensure access to and delivery of quality mental health and substance abuse services that reflect the needs of eligible residents throughout the five-county area. The County's Board of Commissioners is responsible for appointing two of the ten board members of this organization, but the County's accountability for this organization does not extend beyond making the appointments.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements include both government-wide financial statements, which are based on the County as a whole, and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), the new reporting model focuses on either the County as a whole or on major individual funds (within the fund financial statements).

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The focus of the government-wide financial statements is more on sustainability of the County as an entity and the change in aggregate financial position resulting from activities of the fiscal period. As a general rule, the effect of interfund activity has been eliminated from these statements. The County's policy is to eliminate internal activity by distinguishing overhead costs, which are eliminated during consolidation from interfund services provided and used, which are not eliminated. The County does not allocate indirect costs on the statement of activities. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and other charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In the government-wide statement of net assets, the governmental and business-type activities columns are presented on a consolidated basis by column and are presented using the economic resources measurement focus and the accrual basis of accounting, which incorporates long-term assets as well as long-term debt and obligations. Interfund balances between governmental funds and interfund balances between proprietary funds are not included in the government-wide statement of net assets.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given functional category (public safety, general government, etc.) or business-type activity (911 telephone operations, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific functional category or business-type activity. Expenses reported for functional activities do not include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given functional category or business-type activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular functional category or business-type activity. Taxes and other items that are not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The financial transactions of the County are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund financial statements are very similar to the financial statements presented in the previous reporting model. Emphasis under the new reporting model is on major funds in the governmental or enterprise categories. GASB Statement No. 34 sets forth minimum criteria for the determination of major funds. The nonmajor funds in each category are combined in a column in the fund financial statements and detailed in the combining and individual fund statements and schedules section.

The governmental fund financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual: both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes as available if collected within 60 days after year-end. The availability period for all significant revenue sources in governmental funds is 60 days.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Property taxes due but not collected within 60 days after year-end are reflected as deferred revenues. Licenses, permits, and fines and costs are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Interest earnings are recorded when earned. Real estate tax, intergovernmental, departmental, fines and costs, interest, Health Choices, net patient service, and telephone subscriber revenues are all considered susceptible to accrual and, as a result, have been recognized as revenue in the current year.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized as fund liabilities when due. As the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, reconciliations are presented which briefly explain the adjustments necessary to reconcile the governmental fund financial statements to the government-wide financial statements.

The County's enterprise funds, presented in the enterprise fund financial statements, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. With respect to the government-wide financial statements and the enterprise funds, the County has elected to apply only Financial Accounting Standards Board Statements issued prior to November 30, 1989 that do not conflict with GASB Statements.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the Conestoga View and 911 Operations enterprise funds are charges to customers for sales and services. Operating expenses of the enterprise funds include the costs of providing services, such as personnel, contracting and supplies as well as depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The County's fiduciary funds are presented in the fund financial statements by type (Pension Trust Fund and Agency Fund). Since by definition, the assets of these funds are held for the benefit of a third-party (third-parties, pension participants, etc.) and cannot be used to satisfy obligations of the County, these funds are not incorporated into the government-wide financial statements. The County's fiduciary funds are presented on the accrual basis of accounting.

The following major funds are used by the County:

Governmental Funds:

The focus of governmental fund measurement in the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the County:

- General Fund – The General Fund accounts for numerous County primary services (Public Safety, Judicial, Corrections, General Government, Community Development, Debt Service, etc.) and is the primary operating unit of the County. It accounts for all financial resources of the general government, except those required to be accounted for by another fund.
- Children and Youth Services Fund – This special revenue fund is used to account for amounts received from various federal, state, and local sources. These funds are restricted to provide support services to underprivileged juveniles.
- Mental Health and Mental Retardation Fund – This special revenue fund is used to account for amounts received from various federal, state, and local sources. These funds are restricted to provide assistance and medical care to those individuals with mental health and developmental disability problems.
- Agricultural Land Conservation Fund – This special revenue fund is used to account for amounts paid as easements to farmers within the County in efforts to preserve agricultural land.
- Capital Projects Fund – The Capital Projects Fund is used to account for the resources and expenditures related to construction within the County.

Enterprise Fund:

The focus of enterprise fund measurement is upon the determination of operating income, changes in net assets, financial position, and cash flows, which is similar to a business enterprise. The following is a description of the major enterprise fund of the County:

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

- Conestoga View – Conestoga View accounts for the County’s nursing home for the aged. Conestoga View was sold during 2005; thus, the operation of this enterprise fund has concluded.
- In addition to the major funds discussed above, the County reports the following fiduciary fund types:
 - Pension Trust Fund – This fund is used to account for the accumulation of resources for pension payments to qualified County employees under a single-employer contributory defined benefit pension plan covering substantially all County employees.
 - Agency Fund - This fund is used to account for assets held by the County as an agent for individuals, private organizations, and other governmental units. The following County agencies collect fees, fines, and taxes for distribution to other governmental units and citizens for whom it was collected, and are collectively reported as an agency fund:
 - Prothonotary
 - Recorder of Deeds
 - Treasurer
 - Register of Wills
 - Domestic Relations Office (Support Account)
 - Sheriff
 - Clerk of Courts
 - District Justice

C. Summary of Significant Accounting Policies – Component Unit

Basis of Accounting

The Convention Center Authority utilizes the accrual basis of accounting.

Cash and Cash Equivalents

The Convention Center Authority considers all highly liquid debt instruments and certificates of deposit purchased with a maturity of three months or less to be cash equivalents.

Hotel Room Rental Tax

The County receives a 5% hotel room rental tax from the operators of each hotel within Lancaster County. Of the 5% tax, 1.88% is allocated to the Pennsylvania Dutch Convention and Visitors Bureau to be used to promote tourism in Lancaster County and 3.12% is received by the Convention Center Authority to be used for the construction and operation of the convention center facility.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

D. Pending Changes in Accounting Principles

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

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

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

In July 2004, the GASB issued Statement No. 47, "Accounting for Termination Benefits." This statement establishes accounting standards for termination benefits and requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, the statement is effective for the County's 2006 financial statements.

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

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

E. Implementation of Governmental Accounting Standards Board Pronouncements

GASB Statement No. 40

In March 2003, the GASB issued Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

GASB Statement No. 42

In November 2003, the GASB issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The County implemented these statements in 2005. The disclosures required by Statement No. 40 are presented in Note 5. Statement No. 42 had no impact on the 2005 financial statements.

2. Assets, Liabilities, and Net assets or Equity

Pooled Cash and Temporary Investments

The majority of cash balances and temporary investments of most governmental funds, the enterprise funds, and the Agency Fund are pooled by the County. Balances are segregated by fund but accounted for centrally for receipt and disbursement purposes. Interest on investments is reported in the General Fund, except for amounts allocated to those funds where there is a statutory requirement to do so, as dictated in program and/or grant requirements. Individual fund pooled cash and temporary investment deficits are subsidized through operating transfers by the General Fund at year end.

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments (temporary investments) with a maturity of three months or less when purchased to be cash equivalents.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Investments

Investments are stated at fair value as provided by GASB Statement No. 31. Unrealized appreciation or depreciation on investments due to changes in fair value is recognized in individual fund operations each year.

Other than cash equivalents in the enterprise funds, investments that are expected to be realized in cash within twelve months or less are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices), except for nonparticipating interest-bearing contracts such as repurchase agreements and nonnegotiable certificates of deposit, which are reported at amortized cost. Investments expected to be realized in cash after twelve months are reported as long-term investments. Long-term investments are reported at fair value, except for certain nonparticipating, interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities which are not actively traded.

In accordance with authorized investment laws, the County invests in various mortgage-backed securities issued by federal agencies, collateralized mortgage obligations, and U.S. Treasury interest-only strips. These securities are reported at fair value on the balance sheet.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables resulting from these transactions are classified as "due from other funds" or "due to other funds" on the fund balance sheet.

Amounts "Due from Other Governments" are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2005.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Restricted Assets

Governmental Activities

At December 31, 2005, the County had a restricted cash balance of \$565,928 maintained in an escrow account in the name of the County, for the City of Lancaster. This amount satisfies an agreement between the County and the City of Lancaster for required improvements related to the construction of a facility. Disbursement of funds from the account for construction related expenses are subject to City approval. The cash balance in the escrow account is available to the County, subject to a 15% retainage that can be held by the City of Lancaster in order to ensure proper completion of the project and construction of the facility in accordance with all City code building specifications.

The County also had a restricted cash balance of \$291,660 representing amounts deposited in an irrevocable trust to pay future workers compensation claims and a balance of \$2,035,073 in the swap contingency fund.

Component Unit

At December 31, 2005, the Convention Center Authority has \$39,353,383 in short-term certificates of deposit, reported as Restricted Cash, restricted for capital projects.

Capital Assets

The cost of capital assets acquired for general government purposes is recorded as an expenditure in the governmental funds and as an asset in the government-wide financial statements to the extent the County's capitalization threshold has been met. Capital assets acquired by enterprise funds are recorded as assets in both the government-wide financial statements and in the enterprise fund financial statements to the extent the County's capitalization threshold has been met. The County capitalizes assets valued over \$5,000 with a useful life longer than one year.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at fair market value as of the date of donation.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Maintenance, repairs and minor renovations, and software purchases are charged to operations when incurred. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement, the cost and related accumulated depreciation is eliminated from the respective accounts, and any resulting gain or loss is included in the determination of net income for the period.

In accordance with GASB Statement No. 34, the County's infrastructure has been capitalized retroactively to 1980.

Capital assets of the County are depreciated using the straight-line method over the estimated useful lives of purchased, donated, and leased assets as follows:

Infrastructure	40 Years
Buildings and Improvements	40 Years
Furniture and Equipment	5-15 Years
Land and Improvements	20-30 Years

The County has an art collection that is not capitalized because the collection meets the criteria for non-capitalization in accordance with GASB Statement No. 34. Specifically, the collection is held for reasons other than financial gain. The collection is protected, kept unencumbered, cared for, and preserved; it is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

Easements

In order to preserve farmland and open space, the County purchases agricultural easements. An agricultural easement restricts the use of land from commercial development in perpetuity and encourages the continued agricultural use of land. An easement is thus considered an intangible asset of the County. Easements are amortized on the straight-line method over a maximum useful life of 40 years.

Unearned Income

The County reports unearned income in its governmental funds. Unearned income arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned income also arises when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the County has a legal claim to the resources, the liability for unearned income is removed from the governmental funds combined balance sheet and revenue is recognized.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Accrued Vacation and Sick Pay

In governmental fund types, the cost of vacation and sick pay benefits (compensated absences) is recognized when payments are made to employees. A liability for all governmental fund-type vested accrued vacation and sick pay benefits is recorded as a liability in the government-wide statement of net assets. Enterprise funds accrue vacation and sick leave benefits in the period they are earned.

Risk Management

The County is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters, as well as from self-insured unemployment compensation, employees' workers compensation programs, and self-insurance under several medical insurance plans available to eligible retirees and full-time employees. The General Fund is used to account for the risks for all other risk financing activities.

The County purchases commercial insurance for risks of loss related to torts, theft of, damage to, and destruction of assets, and errors and omissions. There have been no significant changes in insurance coverage in the past three years, and settled claims have not exceeded the commercial coverage in those years.

The County manages the financial risk of unemployment benefits through retention of all liability exposure. The liability for claims is estimated at two times the average benefits paid for the three highest claim years.

The County is self-insured for workers' compensation in accordance with Article III of the Pennsylvania Workman's Compensation Act of 1915 as Reenacted and Amended. The exposure of risk is financed mostly through retention of all liability exposure, with limited purchase of commercial excess insurance. The liability is recorded as estimated by the plan administrator. Claims are paid from the General Fund and the required retention amounts are accrued as a liability of the General Fund.

Non-incremental claims adjustment expenses have not been included as part of the self-insurance liabilities.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Fund Equity/Net Assets

Reserved fund balances represent those portions of fund equity not appropriable for expenditure or that are legally segregated for a specific future use. Designated fund balances represent the County's managerial plans for future use of financial resources.

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.

Leases

For capital leases in the governmental fund types, acquisition costs are recorded as expenditures with an offsetting entry to other financing sources.

Intergovernmental Revenues

Intergovernmental revenues represent revenues received from the Commonwealth and federal agencies generally to fund specific programs. Awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs and the revenues are measurable and available. Reimbursement type grants are recorded as revenues in governmental funds when the related expenditures or expenses are incurred and the related revenues are available. The amounts reported as due from other governments consist primarily of amounts due from the Commonwealth.

Interest Revenue

Interest revenue includes interest, dividends, realized gains and losses, and the change in the fair value of investments, if any, during the fiscal year.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations by third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, and investigations.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

2. Assets, Liabilities, and Net assets or Equity (continued)

Swaps and Swaptions

The County enters into various interest rate swaps and swaptions in order to manage risks associated with interest on its bond portfolio. As currently allowed under accounting principles generally accepted in the United States, the County does not record the fair market value or changes in the fair market value on the face of its financial statements. See Notes 18 & 19 for the relevant disclosures.

3. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences between the Total Fund Balance - Governmental Fund Balance Sheet and the Total Net Assets - Governmental Activities, and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *total fund balance - total governmental funds* and *total net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including general obligation bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.” The detail of this \$200,104,423 difference is as follows:

General obligation bonds and notes payable	\$ 193,802,456
Less: Deferred charge on refundings (amortized as expense)	(5,462,743)
Less: Deferred charge for issuance costs (amortized as expense)	(2,048,858)
Plus issuance premium (amortized as income)	1,544,713
Accrued vacation and sick pay	4,278,603
Net pension obligation	3,933,763
Workers compensation claims liability	85,065
Accrued interest payable	1,017,853
Unearned revenue on 2002 swaption agreement	2,600,000
Unearned revenue on 2003 swaption agreement	353,571
Net adjustment to <i>total fund balance - total governmental funds</i> to arrive at <i>net assets - government activities</i>	<u>\$ 200,104,423</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

3. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, Changes in Fund Balances, and the Change in Net Assets - Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this \$7,872,198 difference is as follows:

Capital outlay	\$ 11,834,029
Depreciation expense	<u>(3,961,831)</u>
Net adjustment to increase <i>net changes in fund balance – total governmental funds</i> to arrive at <i>changes in net assets - government activities</i>	<u>\$ 7,872,198</u>

Another element of that reconciliation explains that, “Governmental funds report easement outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as amortization expense.” The detail of this \$8,655,889 difference is as follows:

Easement outlay	\$ 10,049,757
Amortization expense	<u>(1,393,868)</u>
Net adjustment to increase <i>net changes in fund balance – total governmental funds</i> to arrive at <i>changes in net assets - government activities</i>	<u>\$ 8,655,889</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

3. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Another element of that reconciliation states that “the issuance of long-term debt (i.e., bonds, capital leases) 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. Also, 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.” The detail of this \$(17,444,440) difference is as follows:

Debt issued or incurred:	
Issuance of general obligation bonds and notes	\$ (23,775,000)
Amortization of accretion	(1,245,384)
Principal repayments:	
General obligation debt	7,560,944
Repayment on installment purchase agreement	<u>15,000</u>
Net adjustment to decrease <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net assets - government activities</i>	<u>\$ (17,444,440)</u>

Another element of that reconciliation states that, “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. The detail of this \$351,134 difference is as follows:

Bond issuance costs	\$ 352,037
Bond discounts	(903)
	<u>\$ 351,134</u>

Another element of that reconciliation states that, “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The detail of this \$(647,298) difference is as follows:

Claims & judgments	\$ 512,500
Accrued vacation and sick pay	(243,374)
Net pension obligation	(880,124)
Workers compensation liability	(85,065)
Accrued interest payable	(87,355)
Arbitrage rebate payable	521,143
Amortization of deferred amounts on refunding	(395,359)
Amortization of issuance costs	(145,957)
Amortization of net bond premiums	<u>156,293</u>
Net adjustment to decrease <i>net changes in fund balance - total governmental funds</i> to arrive at <i>changes in net assets - government activities</i>	<u>\$ (647,298)</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

4. Budgets and Budgetary Accounting

The County adopts budgets for the General Fund and all special revenue funds, except the Community Development Block Grant Fund and the Agricultural Land Preservation Fund. The Debt Service Fund is controlled through a general obligation bond indenture provision. Project-length financial plans are adopted for the capital projects funds.

The legal level of budgetary control is established by fund. It is the prerogative of management to also maintain an enhanced level of control at the function and object level. Appropriations lapse at the end of each year and must be reappropriated.

The County Administrator is authorized to transfer budget amounts between departments within any fund; however, any supplemental appropriations which alter the total expenditures of any fund require resolution of the County Commissioners.

Budgeted amounts are as originally adopted or as amended by the Commissioners at various times. During the year, several supplemental appropriations were necessary for the general and special revenue funds as a result of additional revenues made available from state grants and other sources.

The budgetary schedules for the General Fund, the Mental Health/Mental Retardation, and Children and Youth Services special revenue funds are located in required supplementary information. The budgetary schedules for the Domestic Relations, Employment and Training, Office of Aging, Drug and Alcohol, Liquid Fuels, and nonmajor revenue funds are located in the combining and individual fund statements and schedules.

5. Deposits and Investments

Deposits

At December 31, 2005, the carrying amount of the County's deposits, which include cash and cash equivalents, was \$74,198,366 and the bank balances totaled \$83,702,819. Of the bank balances, \$938,535 was covered by federal depository insurance. The remainder was categorized as uncollateralized (bank balances collateralized with securities held by the pledging financial institution's agent but not in the County's name).

Non-Pension Investments

The County utilizes various investment sources in an effort to maximize interest earnings on its non-pension cash balances. Commonwealth of Pennsylvania statutes limit the County to the types of investments it may make. Allowable investments include repurchase agreements, U.S. government and related agency obligations, Commonwealth of Pennsylvania and related agency obligations, and prime commercial paper.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Non-Pension Investments (continued)

Custodial Credit Risk

At December 31, 2005, the County's non-pension investments included \$2,199,234 invested in U.S. Treasury Strips. These investments are not insured, are not registered in the name of the County, and are held by the counterparty in the counterparty's name. The County limits its exposure to custodial credit risk by maintaining only those non-pension investments required by sinking fund or other similar contractual requirements.

Interest Rate Risk

Interest Rate Risk is the risk associated with changes in interest rates adversely affecting the fair value of an investment. Investments 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. At December 31, 2005, the County's non-pension investments were subject to interest rate risk as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1 Year	1 – 5	6 – 10	More than 10 Years
U.S. Treasury Strips	<u>\$ 2,199,234</u>	<u>\$ 984,798</u>	<u>\$ 812,883</u>	<u>-</u>	<u>\$ 401,553</u>

The County manages its exposure to interest rate risk for non-pension investments by investing in fixed-rate obligations of the U.S. Government. The non-pension investments in U.S. Treasury Strips with longer terms to maturity are inherently more sensitive to changes in interest rates; as investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair value as a result of future changes in interest rates.

Pension Investments

Pension temporary investments and pension investments by type were as follows at December 31, 2005:

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Pension Investments (continued)

	<u>Carrying Value</u>
Temporary Investments	
U.S. Treasury Bills	<u>\$ 6,200,151</u>
Investments	
U.S. Government Securities	2,577,914
U.S. Government Agency-Mortgage Backed Securities	27,223,955
Domestic Corporate Bonds	10,559,208
Collateralized Mortgage Obligations	1,073,368
Domestic Common Stock	50,954,674
Mutual Funds	22,860,132
International Equity Fund	21,352,290
Total Investments	<u>\$ 136,601,541</u>

Credit Risk

The following schedule details the County's exposure to credit risk with respect to pension temporary investments and pension investments at December 31, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Temporary Investments		
U.S. Treasury Bills	<u>\$ 6,200,151</u>	N/A
Investments		
Domestic Corporate Bonds	1,456,224	A1
Domestic Corporate Bonds	1,507,222	A2
Domestic Corporate Bonds	1,084,141	A3
Domestic Corporate Bonds	627,925	Aa2
Domestic Corporate Bonds	902,484	Aa3
Domestic Corporate Bonds	1,987,684	Aaa
Domestic Corporate Bonds	2,004,730	Baa1
Domestic Corporate Bonds	988,798	Baa2
Total Domestic Corporate Bonds	<u>10,559,208</u>	
Collateralized Mortgage Obligations	198,495	Aaa
Collateralized Mortgage Obligations	<u>874,873</u>	A3
Total Collateralized Mortgage Obligations	<u>1,073,368</u>	
U.S. Government Agency Mortgage Backed Securities	27,223,955	Aaa
U.S. Government Securities	2,577,914	N/A
Domestic Common Stock	50,954,674	N/A
Mutual Funds	22,860,132	N/A
International Equity Fund	21,352,290	N/A
Total Investments	<u>\$ 136,601,541</u>	

All credit ratings were provided by Moody's.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Pension Investments (continued)

The County manages its exposure to credit risk relative to pension investments by restricting the average quality of fixed income securities to meet or exceed a rating of "A₂", the third broad investment grade as determined by Moody's, and by the insistence of the minimum quality of any single fixed income security to meet or exceed "Baa", as determined by Moody's.

Custodial Credit Risk

At December 31, 2005, the County's pension investments were subject to custodial credit risk. All pension investments are held by the counterparty in the counterparty's name and not the name of the County and are recorded by the counterparty in book entry only in the name of the County.

Concentration of Credit Risk

The County's pension investment policy does not allow for an investment of 5% or more of plan net assets in any single corporation or group of affiliated corporations. At December 31, 2005, the County's pension investments were not exposed to concentration of credit risk.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Pension Investments (continued)

Interest Rate Risk

At December 31, 2005, the County's pension investments were subject to interest rate risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1 Year</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10 Years</u>
Temporary Pension Investments					
U.S. Treasury Bills	<u>\$ 6,200,151</u>	<u>\$ 6,200,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pension Investments					
U.S. Government Securities	2,577,914	-	2,577,914	-	-
U.S. Government Agency Mortgage-Backed Securities	27,223,955	-	14,636,139	3,638,905	8,948,911
Domestic Corporate Bonds	10,559,208	2,868,819	4,768,547	2,921,842	-
Collateralized Mortgage Obligations	<u>1,073,368</u>	<u>-</u>	<u>60,229</u>	<u>138,266</u>	<u>874,873</u>
Total Pension Investments - Debt Securities	<u>41,434,445</u>	<u>\$ 2,868,819</u>	<u>\$ 22,042,829</u>	<u>\$ 6,699,013</u>	<u>\$ 9,823,784</u>
Domestic Common Stock	50,954,674				
Mutual Funds	22,860,132				
International Equity Fund	<u>21,352,290</u>				
Total Investments	<u>\$136,601,541</u>				

The County manages its exposure to interest rate risk for temporary pension investments and pension investments by investing in debt security instruments with fixed interest rates. The County's pension investment policy includes a desired annualized 3.5% real rate of return, though investment objectives are long-term in nature.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Pension Investments (continued)

Pension investments with longer terms to maturity are inherently more sensitive to changes in interest rates; as investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair value as a result of future changes in interest rates.

Pension investments in collateralized mortgage obligations and mortgage-backed securities are more sensitive to changes in interest rates. Declining interest rates may give rise to potential increases in prepayments of the underlying mortgages. Conversely, decreases in prepayments of the underlying mortgages may cause prevailing interest rates to rise, which inevitably gives rise to increases in the average length of maturity of these types of investment.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At December 31, 2005, \$21,352,290 of the County's pension investments was held in an international equity fund. More than 80% of the equity securities within this fund are those of companies located outside of the United States, denominated in other than U.S. dollars. The County's pension investment policy limits the County's exposure to foreign currency risk by ensuring that no more than 18% of total pension investments are invested in international equity securities.

Reconciliation of Cash and Investments Reported in the Fund Financial Statements to the Carrying Value of Deposits and Investments in the Footnotes

	Governmental Funds	Enterprise Funds	Fiduciary Funds	Total
Cash and temporary investments:				
Operating	\$ 56,444,132	\$ -	\$ 20,148,112	\$ 76,592,244
Other	913,612	-	-	913,612
Investments	2,199,234	-	136,601,541	138,800,775
Restricted cash	2,892,661	-	-	2,892,661
	<u>\$ 62,449,639</u>	<u>\$ 0</u>	<u>\$ 156,749,653</u>	<u>\$ 219,199,292</u>
Carrying value of deposits per the footnotes				\$ 74,198,366
Temporary investments per the footnotes				6,200,151
Investments per the footnotes				<u>138,800,775</u>
Total deposits and investments per the footnotes				<u><u>\$ 219,199,292</u></u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

5. Deposits and Investments (continued)

Discretely Presented Component Unit

Deposits

Custodial Credit Risk

At December 31, 2005, the carrying amount of the Convention Center Authority's deposits, which include cash and cash equivalents, equaled \$40,136,733 and the bank balances totaled \$40,152,608. \$100,000 of the bank balance was covered by federal depository insurance. \$39,353,383, which represents certificates of deposit purchased with proceeds from the issuance of long-term debt, and the remainder, \$699,225, were exposed to custodial credit risk and categorized as uncollateralized (uninsured and collateralized with securities held by the pledging financial institution's agent but not in the Convention Center Authority's name). The Convention Center Authority does not have a policy relative to managing custodial credit risk.

6. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 and are levied on March 1. Taxes are collected at a discount until April 30, at their face amount from May 1 until June 30, and include a penalty thereafter. The County bills and collects its own taxes relating to property within the City of Lancaster and certain other municipalities that do not elect tax collectors. Taxes relating to all other municipalities in the County are collected by elected tax collectors. The County collects delinquent taxes on behalf of itself and other taxing authorities. Delinquent tax collections and remittances are accounted for through the County's Agency Fund.

The County is permitted by the County Code of the Commonwealth of Pennsylvania to levy property 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 funded debt. The property tax rate for 2005 was 2.962 mills.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

7. Capital Assets

A summary of capital asset activity for the year ended December 31, 2005 is as follows:

	Beginning Balance *	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated/ amortized:				
Land and improvements	\$ 5,786,227	\$ 72,703	\$ 5,750	\$ 5,853,180
Total capital assets, not being depreciated/amortized	5,786,227	72,703	5,750	5,853,180
Capital assets, being depreciated/ amortized:				
Buildings and improvements	104,461,393	11,167,978	771,424	114,857,947
Furniture and equipment	22,409,585	1,189,758	277,073	23,322,270
Assets under capital lease	1,371,165	-	-	1,371,165
Infrastructure	5,480,543	457,837	-	5,938,380
Easements	45,704,954	10,049,757	-	55,754,711
Total capital assets being depreciated/ amortized	179,427,640	22,865,330	1,048,497	201,244,473
Less accumulated depreciation/ amortization for:				
Buildings and improvements	28,972,261	2,951,844	344,565	31,579,540
Furniture and equipment	9,921,561	1,349,386	208,545	11,062,402
Assets under capital lease	479,908	68,558	-	548,466
Infrastructure	763,352	145,154	-	908,506
Easements	6,543,805	1,393,868	-	7,937,673
Total accumulated depreciation/ amortization	46,680,887	5,908,810	553,110	52,036,587
Total capital assets, being depreciated/ amortized, net	132,746,753	16,956,520	495,387	149,207,886
Governmental activities capital assets, net	\$ 138,532,980	\$ 17,029,223	\$ 501,137	\$ 155,061,066

* Easements have been classified as capital assets in the current year; in prior years, easements were classified as a separate asset; thus, beginning balances have been restated for rollforward purposes.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

7. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated/ amortized:				
Land and improvements	\$ 589,530	\$ 2,916	\$ 584,804	\$ 7,642
Total capital assets, not being depreciated/amortized	589,530	2,916	584,804	7,642
Capital assets, being depreciated/ amortized:				
Buildings and improvements	6,852,203	244,516	6,833,206	263,513
Furniture and equipment	14,522,331	475,312	12,435,560	2,562,083
Total capital assets being depreciated/ amortized	21,374,534	719,828	19,268,766	2,825,596
Less accumulated depreciation/ amortization for:				
Buildings and improvements	3,667,500	247,235	3,851,567	63,168
Improvements other than buildings	444,037	16,742	460,779	-
Furniture and equipment	9,582,511	545,406	8,610,293	1,517,624
Total accumulated depreciation/ amortization	13,694,048	809,383	12,922,639	1,580,792
Total capital assets, being depreciated/ amortized, net	7,680,486	(89,555)	6,346,127	1,244,804
Business-type activities capital assets, net	\$ 8,270,016	\$ (86,639)	\$ 6,930,931	\$ 1,252,446

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

Governmental activities:	
General government	\$ 3,032,628
Public safety	1,082,928
Roads and bridges	145,154
Health, education, and welfare:	
Other	48,608
Judicial	143,301
Corrections	1,276,257
Cultural and recreation	179,934
Total depreciation/amortization expense – governmental activities	<u>\$ 5,908,810</u>
Business-type activities:	
Conestoga View	\$ 640,124
911 Operations	169,259
Total depreciation/amortization expense – business-type activities	<u>\$ 809,383</u>

As of December 31, 2005, the County has \$3,259,113 in commitments outstanding related to contracts for the acquisition, construction, and renovation of various facilities.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

7. Capital Assets (continued)

Discretely Presented Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/ amortized:				
Land and improvements	\$ 1,579,621	\$ 2,113,148	\$ -	\$ 3,692,769
Construction in progress	236,461	-	-	236,461
Total capital assets, not being depreciated/amortized	1,816,082	2,113,148	-	3,929,230
Capital assets, being depreciated/ amortized:				
Furniture and equipment	-	8,451	-	8,451
Total capital assets being depreciated/ amortized	-	8,451	-	8,451
Less accumulated depreciation/ amortization for:				
Furniture and equipment	-	1,409	-	1,409
Total accumulated depreciation/ amortization	-	1,409	-	1,409
Total capital assets, being depreciated/ amortized, net	-	7,042	-	7,042
Capital assets, net	\$ 1,816,082	\$ 2,120,190	\$ -	\$ 3,936,272

8. Leases

Operating Leases

The County is committed under various leases for building and office space and data processing and other equipment. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended December 31, 2005 amounted to \$3,158,117. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2006	\$ 3,135,812
2007	2,155,037
2008	1,993,744
2009	2,035,140
2010	2,044,227
2011-2015	10,523,303
2016-2020	8,468,330
2021-2025	100,950
Total	<u>\$ 30,456,543</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities

General Obligation Bonds and Notes

The County issues general obligation bonds and notes to provide funds for the acquisition and construction of major facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government.

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

As determined under the Commonwealth of Pennsylvania Local Government Unit Debt Act of 1972, the legal debt margin of the County at December 31, 2005 was \$194,293,185.

General obligation bonds and notes consisted of the following at December 31, 2005:

Capital appreciation General Obligation Bonds, to advance refund the General Obligation Bonds, Series of 1988, dated March 14, 1991, principal payable semi-annually in varying amounts from \$105,000 to \$2,740,000 from January 1, 2006 to July 1, 2007	\$ 5,339,624
5.30% – 6.25% current interest bearing General Obligation Bonds, Series 2000A, to finance the County's capital projects, dated June 15, 2000, principal payable annually, ranging in amounts from \$2,425,000 to \$2,690,000, from May 2008 to May 2010.	7,665,000
3.20% - 5.50% Interest bearing General Obligation Notes Series A of 2001, to finance the County's capital projects as well as a partial advance refunding of series 2000A, dated December 15, 2001, principal payable annually, ranging in amounts \$5,000 to \$1,765,000, from November 2006 to November 2027.	16,410,000
Capital Appreciation Notes, Series B of 2001, to finance the County's capital projects, dated December 20, 2001, principal payable annually and semi-annually, ranging in amounts \$5,000 to \$2,815,000, from May 2006 to May 2019.	16,288,832
6.10% Interest bearing installment purchase agreement in the amount of \$363,000, dated January 4, 2002, to finance the lease and subsequent purchase of an agricultural easement, principal payable in full on November 15, 2016.	363,000
5.00% Interest bearing General Obligation Note Series of 2002 in the principal amount of \$3,210,000 to current refund Series A of 1997, and to partially refund Series B of 1997, Series of 1998, and Series of 1999, dated February 1, 2002, principal payable annually in amounts ranging from \$60,000 to \$1,490,000 from November 1, 2006 to November 1, 2010.	3,185,000
Variable rate interest bearing General Obligation Note Series of 2002A in the principal amount of \$25,050,000 to current refund Series 2000, dated September 13, 2002, principal payable annually, varying in amounts from \$5,000 to \$2,439,000 from October 25, 2006 to October 25, 2030. Interest is payable monthly, based upon monthly calculations remitted by the bond trustee that include amounts sufficient to pay payments and receipts under any interest rate swap agreements, payments due to holders of the bonds, and monthly finance charges. The interest on the bonds will never exceed 15%.	25,035,000
4.40% - 4.70% General Obligation Bonds Series of 2002A in the principal amount of \$7,345,000 to finance certain capital projects dated December 15, 2002, principal payable annually, varying in amounts from \$5,000 to \$3,700,000 from November 1, 2006 to November 1, 2020.	7,335,000
5.50% Interest bearing installment purchase agreement in the amount of \$210,000, dated December 30, 2002, to finance the lease and subsequent purchase of an agricultural easement, principal payable in full on November 15, 2022	210,000

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities (continued)

<p>3.00% - 4.75% General Obligation Bonds Series of 2003 in the principal amount of \$23,305,000 to finance certain capital projects dated January 1, 2003, principal payable annually, varying in amounts from \$480,000 to \$1,395,000 from November 1, 2006 to November 1, 2032.</p>	22,390,000
<p>1.70% - 5.25% General Obligation Bonds Series of 2003A in the principal amount of \$23,715,000 to partially refund Series A of 2000, dated October 15, 2003, principal payable annually, varying in amounts from \$300,000 to \$4,930,000 from May 1, 2006 to May 1, 2015.</p>	23,390,000
<p>Variable rate interest bearing General Obligation Demand Bonds Series of 2003B in the principal amount of \$13,945,000 to current refund Series B of 1997 and Series of 1998, dated November 3, 2003, principal payable annually, varying in amounts from \$785,000 to \$1,415,000 from November 1, 2006 to November 1, 2016. Bond is payable upon demand. The Interest Mode the bonds were issued in was a weekly mode; however the bonds may be converted to term mode at any time. Interest is payable monthly, based upon a weekly interest rate obtained from the Remarketing Agent. If converted to term mode bonds, interest is payable semiannually and the determination date a day not more than 15 days preceding or later than the last business day preceding such rate period. The interest on the bonds will never exceed 12%.</p>	11,930,000
<p>5.85% Interest bearing installment purchase agreement in the amount of \$226,000, dated September 3, 2003, to finance the purchase of an agricultural easement, principal payable in lump sum of November 15, 2023.</p>	226,000
<p>4.40% Interest bearing installment purchase agreement in the amount of \$150,000, dated April 30, 2003, to finance the purchase of an agricultural easement, principal payable annually in the amount of \$15,000 from January 20, 2006 to January 20, 2013, principal paid in full on January 20, 2013.</p>	120,000
<p>3.50% - 4.50% General Obligations Bond Series of 2004 in the principal amount of \$5,005,000 to refund Series of 1999, dated August 1, 2004, principal payable annually, varying in amounts from \$440,000 to \$1,265,000 from November 1, 2006 to November 1, 2010.</p>	3,850,000
<p>2.50% - 5.00% General Obligation Bond Series A of 2004 in the principal amount of \$27,300,000 to finance certain capital projects dated May 1, 2004, principal payable annually, varying in amounts from \$1,030,000 to \$2,110,000 from November 1, 2006 to November 1, 2023.</p>	26,290,000
<p>Variable rate General Obligation Bond Series of 2005 in the principal amount of \$23,775,000 to finance certain capital projects dated March 2, 2005, principal payable annually, varying in amounts from \$570,000 to 1,465,000 from March 1, 2006 to March 1, 2030. The Interest Mode the bonds were issued in was a weekly mode. Interest is payable monthly, based upon a weekly interest rate obtained from the Remarketing Agent. The interest on the bonds will never exceed 25%.</p>	23,775,000
<p>Total general obligation bonds and notes payable</p>	<p style="text-align: right;"><u>23,775,000</u> <u>\$ 193,802,456</u></p>

A summary of the County's total debt service commitments for general obligation bonds and notes is as follows:

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities (continued)

	Principal	Interest	Total
2006	\$ 7,519,142	\$ 7,262,059	\$ 14,781,201
2007	7,515,103	7,277,766	14,792,869
2008	8,024,507	6,772,705	14,797,212
2009	8,372,902	6,433,399	14,806,301
2010	8,481,518	6,337,403	14,818,921
2011-2015	46,390,796	28,037,464	74,428,260
2016-2020	45,698,488	26,977,405	72,675,893
2021-2025	32,135,000	9,764,100	41,899,100
2026-2030	26,940,000	3,419,700	30,359,700
2031-2035	2,725,000	195,700	2,920,700
	<u>\$ 193,802,456</u>	<u>\$ 102,477,701</u>	<u>\$ 296,280,157</u>

On April 14, 2005, the County issued the variable interest rate General Obligation Bonds Series of 2005 in the amount of \$23,775,000 to finance various capital projects and capital grant programs and to pay the costs of issuing and capitalized interest associated with the bonds.

The remaining \$1,245,384 of the 2005 additions to general obligation bonds and notes payable represent 2005 accretion on the capital appreciation general obligation bonds dated March 1, 1991 and the capital appreciation general obligation notes dated December 20, 2001.

As of December 31, 2005, \$20,740,000 of bonds outstanding is classified as defeased.

On March 2, 2005, the County authorized the issuance of the General Obligation Bonds Series of 2008 in the amount of \$8,800,000. This bond series will be issued with a variable interest rate.

Changes in Long-Term Liabilities

During the year ended December 31, 2005, the following changes occurred in long-term liabilities:

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities (continued)

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental Activities:					
General obligation bonds and notes payable	\$ 175,662,072	\$ 25,020,384	\$ 6,880,000	\$ 193,802,456	\$ 7,519,142
Deferred amounts on refundings	(5,858,102)		(395,359)	(5,462,743)	
Net premium on bonds payable	1,701,006		156,293	1,544,713	
Claims and judgments	-512,500		512,500		
Accrued vacation and sick pay	4,035,229	545,167	301,793	4,278,603	288,547
Net pension obligation	3,053,639	937,585	57,461	3,933,763	
Workers' compensation claims liability	-	85,065		85,065	
Arbitrage rebate payable	521,143		521,143	-	
Loan payable	695,041		695,041	-	
Deferred revenue on swap agreement	3,085,714		132,143	2,953,571	132,143
Governmental activities long-term liabilities	\$ 201,135,428	\$ 26,588,201	\$ 8,861,015	\$ 201,135,428	\$ 7,939,832

(*) Must subtract for column to foot

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Business-Type Activities:					
Net pension obligation	\$ 1,134,424	\$ -	\$ 940,609	\$ 193,815	\$ -
Accrued vacation and sick pay	1,337,847	16,394	1,120,150	234,091	1,708
Business-type activities long-term liabilities	\$ 2,472,271	\$ 16,394	\$ 2,060,759	\$ 427,906	\$ 1,708

All long-term liabilities are expected to be repaid primarily from General Fund tax revenues.

Discretely Presented Component Unit

The Convention Center Authority incurred Hotel Room Rental Tax Revenue Bonds, Series of 2003 for the purpose of paying, together with other available funds, costs of (i) funding the design, acquisition, construction, furnishing and equipping of that certain convention center, as defined in the Indenture; (ii) funding necessary reserves for the Project and the Bonds; (iii) the establishment of necessary reserves and other funds under the Indenture; and (iv) payment of the costs and expenses of issuance of the Bonds. The 2003 Bonds are secured by a pledge of all current and future revenue derived by the Convention Center Authority from its share of Hotel Room Rental Tax.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities (continued)

Discretely Presented Component Unit (continued)

Interest rate shall be 55 basis points over the yield on balances held as collateral in the Project Funds Capitalized Interest and Debt Service Reserve Funds at Citizens Bank. Amounts borrowed which exceed the amount held as collateral shall bear interest floating at Libor plus 75 basis points.

The Bonds shall continue to bear interest (interest only) at the Libor Rate until the Libor Rate Conversion Date (mandatory conversion on December 1, 2006). On the Libor Rate Conversion Date, the issuer may elect to convert the Bonds to a weekly mode or a term mode. Interest is due during the Libor Rate period on January 1, April 1, July 1, and October 1. With respect to a weekly rate (adjustable), interest is due the first business day of each month and with respect to term rate (fixed), interest is due each April 1 and October 1.

The amount of outstanding Hotel Room Rental Tax Revenue Bonds, Series of 2003 at March 31, 2005 is \$40,000,000. Final Maturity is October 1, 2043.

Minimum annual debt service requirements on the 2003 Bond Issue (based on Libor rate as of March 31, 2005, being used through December 1, 2006, and estimates thereafter) are as follows:

	Principal	Interest	Total
March 31, 2006	\$ -	\$ 819,720	\$ 819,720
March 31, 2007	-	1,289,946	1,289,946
March 31, 2008	115,000	2,228,926	2,343,926
March 31, 2009	220,000	2,220,070	2,440,070
March 31, 2010	330,000	2,205,239	2,535,239
April 1, 2010 - March 31, 2015	2,295,000	10,677,020	12,972,020
April 1, 2015 - March 31, 2020	3,015,000	9,583,940	12,598,940
April 1, 2020 - March 31, 2025	3,950,000	8,982,980	12,932,980
April 1, 2025 - March 31, 2030	5,190,000	7,720,918	12,910,918
April 1, 2030 - March 31, 2035	6,810,000	6,064,792	12,874,792
April 1, 2035 - March 31, 2040	8,950,000	3,889,725	12,839,725
April 1, 2040 - March 31, 2044	9,125,000	1,095,040	10,220,040
	<u>\$ 40,000,000</u>	<u>\$ 56,778,316</u>	<u>\$ 96,778,316</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

9. Long-Term Liabilities (continued)

Discretely Presented Component Unit (continued)

In addition, the Convention Center Authority has entered into a term loan and revolving line of credit agreement with Sovereign Bank with a total borrowing limit of \$3,100,000. Proceeds were used to purchase property. The term loan expires on December 15, 2006, and the line of credit is payable on demand. Interest is charged at the prime rate. Borrowings under this commitment are secured by the Convention Center Authority's hotel tax receipts, deposit accounts, and mortgaged property. The outstanding balance of the loan at March 31, 2005, was \$2,100,000. Aggregate maturities on long-term debt at March 31, 2005, are as follows:

	Principal	Interest	Total
March 31, 2006	\$ -	\$ 120,750	\$ 120,750
March 31, 2007	2,100,000	92,878	2,192,878
	<u>\$ 2,100,000</u>	<u>\$ 213,628</u>	<u>\$ 2,313,628</u>

10. Self-Insurance Claims Liability

Changes in the County's self-insurance claims liabilities for the years ended December 31, 2005 and 2004 were as follows:

	Liability Balance as of January 1, 2005	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance as of December 31, 2005
Unemployment Compensation	\$ 501,286	\$ 393,968	\$ 298,696	\$ 596,558
Workers' Compensation	1,386,318	832,064	803,056	1,415,326
Total Unemployment Compensation and Workers' Compensation	<u>\$ 1,887,604</u>	<u>\$ 1,226,032</u>	<u>\$ 1,101,752</u>	<u>\$ 2,011,884</u>

	Liability Balance as of January 1, 2004	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance as of December 31, 2004
Unemployment Compensation	\$ 383,803	\$ 430,100	\$ 312,617	\$ 501,286
Workers' Compensation	1,400,321	655,065	669,068	1,386,318
Total Unemployment Compensation and Workers' Compensation	<u>\$ 5,352,372</u>	<u>\$ 1,085,165</u>	<u>\$ 981,685</u>	<u>\$ 1,887,604</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

10. Self-Insurance Claims Liability (continued)

Of the above self-insurance claims liability balances, amounts for the years ended December 31, 2005 and 2004 were reported as payroll related accruals in governmental activities and the General Fund because these liabilities are due and payable and expected to be liquidated with expendable available resources.

11. Interfund Balances

Individual fund receivable and payable balances at December 31, 2005 were as follows:

Fund(s)	Interfund Receivables	Interfund Payables
General	\$ 397,649	\$ -
Nonmajor Governmental	-	397,649
	\$ 397,649	\$ 397,649

The balance due to the General Fund from the nonmajor governmental funds resulted from cash deficits in the respective nonmajor governmental funds.

12. Interfund Transfers

Interfund transfers for the year ended December 31, 2005 consisted of the following:

Funds	Interfund Transfers In	Interfund Transfers Out
General Fund	\$ 8,850,561	\$ 14,251,827
Children and Youth Services	6,964,295	-
Mental Health/Mental Retardation	1,053,756	-
Capital Projects	-	393,330
Nonmajor Governmental	2,669,507	-
Conestoga View	-	8,410,642
911 Operations (Nonmajor Business-type)	3,517,680	-
Total	\$ 23,055,799	\$ 23,055,799

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various grant programs accounted for in other funds in accordance with budgetary and legal authorizations; and (2) subsidize 911 operations.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

12. Interfund Transfers (continued)

In the year ended December 31, 2005, the County made a one-time transfer of \$393,330 from the Capital Projects Fund to the General Fund to fund the payment of interest on general obligation bonds payable.

In the year ended December 31, 2005, the County made a one-time transfer of \$8,410,642 from the Conestoga View Fund to the General Fund upon the conclusion of the operation of the fund due to the sale of the nursing home during 2005.

13. Fines and Costs Receivable

At December 31, 2005, \$571,263 in fines and costs receivable are expected to be collected in more than one year.

14. Commitments and Contingent Liabilities

The County receives funds from the Commonwealth of Pennsylvania and various federal agencies to fund specific programs. Final determination of various amounts is subject to audit under the Federal Single Audit Act Amendments of 1996 and by the responsible agencies. County officials believe that any audit adjustments resulting from final settlements will be immaterial in relation to the County's financial resources.

The County is involved as either plaintiff or defendant in several lawsuits and claims. However, it is the opinion of County solicitors that potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial position of the County.

On December 15, 2003, the County guaranteed to replenish annual debt service reserve fund draws of the Convention Center Authority over the life of the Convention Center Authority's debt service reserve fund note. The Convention Center Authority's Note was issued in connection with the Convention Center Authority's Hotel Room Rental Tax Revenue Bonds, Series 2003, (the Bonds) to prevent a default of the Bonds in the event of an unexpected interruption in the flow of hotel room rental tax revenues that are pledged to pay debt service on the Bonds. The annual replenishment to be paid by the County equals, to the extent the Convention Center Authority has failed to provide necessary funding as required by the Convention Center Authority's debt service reserve fund note, an amount not to exceed the lesser of \$1,506,960 or 50% of the required reserve amount in any fiscal year. At December 31, 2005 the Convention Center Authority debt service reserve fund had a required reserve amount equaling \$2,610,270; thus, the County's replenishment guarantee equaled \$1,305,135 at December 31, 2005. As of December 31, 2005, hotel room rental tax revenues were sufficient to cover the debt service on the Bonds; thus, it was not necessary for the County to replenish the debt service reserve fund.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

14. Commitments and Contingent Liabilities (continued)

On May 15, 2004, the County guaranteed revenue bonds issued by the Redevelopment Authority in the amount of \$13,505,000 to fund the site acquisition, design, construction, and operation of a multi-purpose stadium and related improvements. The bonds are to be repaid by the Redevelopment Authority by receipts and revenues derived from the use of the multi-purpose stadium facilities. At December 31, 2005, \$13,105,000 of the bonds remained outstanding.

On May 12, 2005, the County guaranteed lease rental debt of the Redevelopment Authority to be incurred during the undertaking of the stadium project in a maximum annual principal amount of \$1,099,996.

On September 2, 2005, the County guaranteed a note in the amount of \$100,000 issued by the Lancaster Industrial Development Authority to the Redevelopment Authority. Principal and interest on this note is due June 30, 2025.

15. Gain Contingencies

\$500,000 Agreement Dated March 9, 2005

On March 9, 2005, the Lancaster County Redevelopment Authority (the Redevelopment Authority) borrowed \$500,000 from the County to finance a portion of the costs to construct a public stadium facility (the project) located in Lancaster County. Under the terms of the agreement of the same date between the Redevelopment Authority and the County relative to the \$500,000 borrowing, interest and principal are to be payable from available excess revenues of the project, if any, commencing on the fifth anniversary on the agreement. Payment of principal and interest relative to this agreement are subordinated to any and all existing and future indebtedness of the Redevelopment Authority related to the project. In the event the Redevelopment Authority defaults on payments with respect to any indebtedness to which the \$500,000 borrowing dated March 9, 2005 has been subordinated, no future payments are to be made by the Redevelopment Authority to the County relative to the \$500,000 borrowing dated March 9, 2005 subsequent to such default.

In connection with the \$500,000 borrowing dated March 9, 2005, the County recorded a note receivable in the amount of \$500,000. Subsequent to March 9, 2005, an allowance for doubtful collections equaling \$500,000, attributable to the respective borrowing, was recorded; this resulted in a net note receivable balance of \$0. Because the Redevelopment Authority has been enabled to default on repayment of the \$500,000 borrowing dated March 9, 2005, in part or in whole, in the event the

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

15. Gain Contingencies (continued)

\$500,000 Agreement Dated March 9, 2005 (continued)

Redevelopment Authority does not generate excess revenues through the project as defined by the associated agreement; by having to meet other potential obligations of other persons or entities at the time payment of principal and interest of the \$500,000 borrowing dated March 9, 2005 is due; or by defaulting on payments with respect to any indebtedness to other persons or entities, the County has elected to write off the respective \$500,000 receivable balance and has charged a \$500,000 expense to the general government line item within the General Fund.

Any collections by the County of principal and interest attributable to the \$500,000 borrowing dated March 9, 2005 are contingent upon the Redevelopment Authority's ability to generate excess revenues as defined by the respective agreement, its ability to meet existing obligations of other creditors at the time principal and interest payments are due, and its ability to remain out of default on payments with respect to any indebtedness to which the \$500,000 borrowing dated March 9, 2005 has been subordinated. As a result of having expensed the \$500,000 note receivable, any potential collections by the County on the \$500,000 borrowing dated March 9, 2005 are considered contingent gains.

\$500,000 Agreement Dated March 29, 2005

On March 29, 2005, the Redevelopment Authority borrowed \$500,000 from the County to finance, on a short-term basis, a portion of the costs to construct a public stadium facility located in Lancaster County. Principle was to be paid in full 120 days from the date of the note; this resulted in an original due date of July 27, 2005. Approval has been given by the County to extend the due date of the particular borrowing to December 31, 2006; however, the request prepared by the Redevelopment Authority to extend the due date relative to this indebtedness was dated December 23, 2005, well after the original due date of July 27, 2005, giving rise to the likelihood that the County will not seek sanctions against the Redevelopment Authority for not having repaid the borrowing in a timely fashion.

The Redevelopment Authority has alerted the County, through its correspondence to the County dated December 23, 2005, that its ability to repay the \$500,000 borrowing dated March 29, 2005 is contingent upon its ability to secure a minimum of \$1 million in additional funds from the Commonwealth of Pennsylvania through Pennsylvania's Redevelopment Assistance Capital Grant.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

15. Gain Contingencies (continued)

\$500,000 Agreement Dated March 29, 2005 (continued)

In connection with the \$500,000 borrowing dated March 29, 2005, the County recorded a note receivable in the amount of \$500,000. Subsequent to March 29, 2005, an allowance for doubtful collections equaling \$500,000, attributable to the respective borrowing, was recorded; this resulted in a net note receivable balance of \$0. The County has since elected not to enforce the repayment clause of the associated agreement, whereby the Redevelopment Authority was to repay the principal amount of \$500,000 in full on July 27, 2005, has further elected to write off the \$500,000 receivable balance attributable to the March 29, 2005 agreement, and has charged a \$500,000 expense to the general government line item within the General Fund.

According to correspondence received by the County from the Redevelopment Authority dated December 23, 2005, any collections by the County of principal and interest attributable to the \$500,000 borrowing dated March 29, 2005 are contingent upon the Redevelopment Authority's ability to secure a minimum of \$1 million in additional funds from the Commonwealth of Pennsylvania through Pennsylvania's Redevelopment Assistance Capital Grant. As a result of having expensed the \$500,000 note receivable, any potential collections by the County on the \$500,000 borrowing dated March 29, 2005 are considered contingent gains.

16. Postretirement Healthcare Benefits

In addition to providing pension benefits, the County provides certain postretirement healthcare benefits to all former employees who were members of the Employee Retirement Plan for a minimum of five years and are currently receiving retirement income. The provisions of the plan are stated in the County's personnel manual. The County is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Currently, 538 retirees meet those eligibility requirements. These benefits are provided through insurance companies whose premiums, in some cases, are based on the benefits paid during the year. Premiums under the plan for certain healthcare benefits are paid in part by the County. Retirees desiring such coverage are responsible for co-pays in accordance with rates established by the County. The County recognizes the cost of providing these benefits, which totaled \$2,920,302 for 2005, as premiums are paid.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

17. Employee Retirement Plan (Pension Trust Fund)

The County maintains a single-employer contributory defined benefit pension plan (the Plan) covering substantially all County employees. The Plan is considered part of the County's financial reporting entity and is included in the County's financial statements as a Pension Trust Fund. The Plan does not issue a stand-alone financial report.

Description of Plan

The Plan is governed by the 1971 County Pension Law, Act 96, of the General Assembly of the Commonwealth of Pennsylvania, as amended (the Act). Benefit and contribution provisions of the Plan are established and can be amended as provided by the Act.

Membership in the Plan is mandatory for all full-time County employees. At December 31, 2005, the Plan's membership consisted of the following:

Retirees and beneficiaries receiving benefits	722
Terminated plan members enrolled but not yet receiving benefits	87
Active plan members	<u>1,975</u>
Total members	<u><u>2,784</u></u>

The Plan provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service. Employees who retire at age 60 or with 20 years of service, if at least 55 years of age, are entitled to an unreduced annual retirement benefit. Employees are eligible for a reduced annual retirement benefit after accumulating 20 years of service prior to reaching age 55.

The general annual benefit is from .833% to 1.25% (depending on the date the employee entered the Plan) of the employee's high three-year salary times years of service.

Cost-of-living adjustments (COLA) are provided at the discretion of the Lancaster County Employees' Retirement Board.

Covered employees are required by the Act to contribute to the Plan at a rate of 5% of their gross pay. Employees may contribute up to an additional 10% of gross pay, at their option. The contributions are recorded in an individually identified account which is also credited with interest, calculated to yield 5% compounded annually. Accumulated employee contributions and credited interest, which amounted to \$46,372,885 as of December 31, 2005, vest immediately and are returned upon termination of service if the employee is not eligible for other benefits.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

17. Employee Retirement Plan (Pension Trust Fund) (continued)

The County is required to contribute to the Plan at an actuarially determined rate. The Act establishes the contribution requirements of the County and may be amended by the General Assembly of the Commonwealth of Pennsylvania.

The Plan's investments are held in a bank-administered trust fund. The Retirement Board authorizes, within a 5% margin, the Pension Trust Fund to invest the following asset allocations:

Domestic Equity	49%
International Equity	14%
Fixed Income	37%

The County's investment policy does not allow for an investment of 5% or more of plan net assets in any single corporation or group of affiliated corporations.

Administrative costs of the Plan, in accordance with a 1991 amendment to the Act, may be paid from Plan assets unless it is determined by the actuary that such payment will impair the actuarial soundness of the Plan. During 2005, all administrative costs totaling \$49,902 were paid from Plan assets.

The Act makes no provision for termination of the Plan.

Summary of Significant Accounting Policies

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

17. Employee Retirement Plan (Pension Trust Fund) (continued)

The Plan's funding policy provides for periodic member contributions as discussed above and employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates and the actuarial value of assets are determined using the aggregate actuarial funding method. Separate determination and amortization of the unfunded accrued actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used. Significant actuarial assumptions used to compute the annual employer required contributions for the current year are the same as those used to compute the net pension obligation as follows:

The net pension obligation and the annual required contribution were determined as part of an actuarial valuation at December 31, 2005. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 3.75 - 4.5%, at graduated .25% increments over three years; (c) 3% inflation rate, and (d) no postretirement benefit increases.

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 7,534,558
Interest on net pension obligation	314,105
Adjustment to annual required contribution	(509,148)
Annual pension cost	<u>7,339,515</u>
Contributions made	7,400,000
Increase/(decrease) in net pension obligation	<u>(60,485)</u>
Net pension obligation beginning of year	4,188,063
Net pension obligation, end of year	<u>\$ 4,127,578</u>

Available Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 4,525,543	122%	\$ 4,052,800
2004	\$ 5,635,263	98%	\$ 4,188,063
2005	\$ 7,339,515	101%	\$ 4,127,578

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

17. Employee Retirement Plan (Pension Trust Fund) (continued)

Legally Required Reserves

At December 31, 2005, the County has a balance of \$46,372,885 in Members' Annuity Reserve Account. This account is the total of the contributions deducted from the salaries of the active and terminated vested members of the retirement system and the IRC 414(h)(2) pickup contributions together with the interest additions as of December 31, 2005. Since those accumulations represent the present value of future benefits as of December 31, 2005, the reserve balance and liability are equal and this reserve is fully funded.

The County has a balance of \$46,457,231 in the County Annuity Reserve Account as of December 31, 2005. This balance and the amounts expected to be credited in the future, plus investment earnings thereon, represent the reserves set aside for the payment of the County's share of the retirement allowances.

When a County annuity is scheduled to commence for a particular member, sufficient monies are transferred from the County Annuity Reserve Account to the Retired Members' Reserve Account to provide for such County annuities actually entered upon.

The Retired Members' Reserve Account is the account out of which monthly retirement allowances including cost-of-living increases and death benefits are paid. The assets allocated to this reserve account as of December 31, 2005 amounted to \$44,249,302.

Thus, the Retired Members' Reserve Account is always fully funded.

18. Interest Rate Swaps

General Obligation Note Series 2002A

Objective of the Interest Rate Swap

In order to take advantage of the interest rate environments in the financial markets and to lock in a fixed rate relative to the variable rate interest payments it is required to make for the variable rate interest bearing General Obligation Note Series of 2002A (the "2002A note") in the amount of \$24,900,000, the County entered into an interest rate swap in November, 2001, which was later amended in May, 2004. The intention of the swap was to effectively change the County's variable interest rate on the 2002A note to a fixed maximum rate of 5.195% for periodic scheduled payments.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Terms

The 2002A note and the related agreement mature on October 25, 2030. The swap's notional amount of \$25,035,000 equals the variable rate 2002A note's notional amount of \$25,035,000. Under the swap, the County pays to the provider periodic payments not to exceed 5.195% and receives a variable payment computed as 60% of the London Interbank Offered Rate (LIBOR) plus 0.303%. The 2002A note's variable rate coupons are based on the variable Bond Market Association Municipal Swap Index (BMA), which equaled 3.54% as of December 31, 2005, plus approximately 0.05%. In connection with and in consideration for entering into this swap agreement the County received a \$3,000,000 swap premium in January of 2002, which is being deferred and amortized over the life of the swap agreement.

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$5,876,311 as of December 31, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate 2002A note, creating a lower synthetic fixed interest rate. Because the coupons on the County's variable rate 2002A note adjust to changing interest rates, the 2002A note does not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk, should the relationship between LIBOR and BMA converge, thus changing the synthetic rate on the 2002A note. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (5.195%) and the synthetic rate as of December 31, 2005 (5.849%). The termination exposure of the General Obligation Note Series 2002A swap agreement at December 31, 2005 equals \$5,876,311 (the County would have to pay this amount to terminate the swap).

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the variable rate debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, variable rate 2002A note interest payments and net swap payments will vary.

Fiscal Year Ending December 31	Variable-Rate Note		Interest Rate Swap, Net	Total
	Principal	Interest		
2006	\$ 5,000	\$ 878,696	\$ 565,541	\$ 1,449,237
2007	5,000	878,520	565,428	1,448,948
2008	5,000	878,345	565,315	1,448,660
2009	5,000	878,169	565,202	1,448,371
2010	5,000	877,994	565,089	1,448,083
2011-2030	25,010,000	12,214,113	7,966,070	45,190,183
Total	<u>\$ 25,035,000</u>	<u>\$ 16,605,837</u>	<u>\$ 10,792,645</u>	<u>\$ 52,433,482</u>

General Obligation Bond Series 2003B

Objective of the Interest Rate Swap

In order to take advantage of the interest rate environments in the financial markets and to lock in a fixed rate relative to the variable rate interest payments it is required to make for the variable rate interest bearing General Obligation Bond Series of 2003B (the "2003B bond") in the amount of \$13,945,000, the County entered into an interest rate swap in October, 2002, which was later amended in May, 2004. The intention of the swap was to effectively change the County's variable interest rate on the 2003B bond to a fixed maximum rate of 4.72954% for periodic scheduled payments.

Terms

The 2003B bond and the related agreement mature on November 1, 2016. The swap's notional amount of \$11,930,000 matches the variable rate 2003B bond's notional amount of \$11,930,000. Under the swap, the County pays to the provider periodic payments not to exceed 4.72954% and receives a variable payment computed as 60% of the London Interbank Offered Rate (LIBOR) plus 0.5575%. The 2003B bond's variable-rate coupons are based on the variable Bond Market Association Municipal Swap Index (BMA), which equaled 3.54% as of December 31, 2005, plus approximately 0.05%. In connection with and in consideration for entering into this swap agreement the County received a \$450,000 swap premium in November of 2003, which is being deferred and amortized over the life of the swap agreement.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$719,234 as of December 31, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate 2003B bond, creating a lower synthetic fixed interest rate. Because the coupons on the County's variable-rate 2003B bond adjust to changing interest rates, the 2003B bond does not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon 2003B bonds due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk, should the relationship between LIBOR and BMA converge, thus changing the synthetic rate on the 2003B bond. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (4.72954%) and the synthetic rate as of December 31, 2005 (5.129%). The termination exposure of the General Obligation Bond Series 2003B swap agreement at December 31, 2005 equals \$719,234 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the variable rate debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, variable rate 2003B bond interest payments and net swap payments will vary.

Fiscal Year Ending December 31	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2006	\$ 1,075,000	\$ 411,262	\$ 183,603	\$ 1,669,865
2007	1,125,000	373,345	167,058	1,665,403
2008	1,170,000	333,725	149,745	1,653,470
2009	1,230,000	292,405	131,738	1,654,143
2010	1,285,000	249,034	112,809	1,646,843
2011-2016	6,045,000	629,501	292,333	6,966,834
Total	<u>\$ 11,930,000</u>	<u>\$ 2,289,272</u>	<u>\$ 1,037,286</u>	<u>\$ 15,256,558</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

General Obligation Bond Series 2005

Objective of the Interest Rate Swap

In order to take advantage of the interest rate environments in the financial markets and to lock in a fixed rate relative to the variable rate interest payments it is required to make for the variable rate interest bearing General Obligation Bond Series of 2005 (the “2005 bond”) in the amount of \$23,775,000, the County entered into an interest rate swap in March, 2005. The intention of the swap was to effectively change the County’s variable interest rate on the 2005 bond to a fixed rate of 3.60% for periodic scheduled payments.

Terms

The 2005 bond and the related agreement mature on March 1, 2030. The swap’s notional amount of \$23,775,000 matches the variable rate 2005 bond’s notional amount of \$23,775,000. Under the swap, the County pays to the provider periodic payments not to exceed 3.60% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). The 2005 bond’s variable rate is calculated annually using a weekly rate based on the variable Bond Market Association Municipal Swap Index (BMA), as determined and conveyed by the 2005 bond’s remarketing agent. The weekly rate based on BMA equaled 3.54% as of December 31, 2005.

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$529,875 as of December 31, 2005. The swap’s negative fair value may be countered by a reduction in total interest payments required under the variable-rate 2005 bond, creating a lower synthetic fixed interest rate. Because the coupons on the County’s variable-rate 2005 bond adjust to changing interest rates, the 2005 bond does not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Basis Risk and Termination Risk

The swap exposes the County to basis risk, should the relationship between LIBOR and BMA converge, thus changing the synthetic rate on the 2005 bond. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.60%) and the synthetic rate as of December 31, 2005 (4.156%). The termination exposure of the General Obligation Bond Series 2005 swap agreement at December 31, 2005 equals \$529,874 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the variable rate debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, variable rate 2005 bond interest payments and net swap payments will vary.

Fiscal Year Ending December 31	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2006	\$ 570,000	\$ 824,719	\$ 146,454	\$ 1,541,173
2007	590,000	803,947	142,943	1,536,890
2008	615,000	782,319	139,308	1,536,627
2009	640,000	759,806	135,520	1,535,326
2010	665,000	736,408	131,578	1,532,986
2011-2030	20,695,000	8,028,020	1,503,841	30,226,861
Total	<u>\$ 23,775,000</u>	<u>\$ 11,935,219</u>	<u>\$ 2,199,644</u>	<u>\$ 37,909,863</u>

General Obligation Bond Series 2006

Objective of the Interest Rate Swap

In order to take advantage of the interest rate environments in the financial markets and to lock in a fixed rate relative to the variable rate interest payments it will be required to make for the variable rate interest bearing General Obligation Bond Series of 2006 (the "2006 bond"), which is to be issued in the amount of \$26,285,000, the County entered into an interest rate swap in March, 2005. The intention of the swap is to effectively change the variable interest rate attributable to the anticipated 2006 bond issuance to a fixed rate of 3.716% for periodic scheduled payments.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Terms

The 2006 bond and the related agreement mature on March 1, 2031. The swap's notional amount of \$26,285,000 matches the anticipated variable rate 2006 bond's notional amount of \$26,285,000. Under the swap, the County pays to the provider periodic payments not to exceed 3.716% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). The 2006 bond's variable rate is calculated annually using a weekly rate based on the variable Bond Market Association Municipal Swap Index (BMA), as determined and conveyed by the 2006 bond's remarketing agent. The weekly rate based on BMA equaled 3.54% as of December 31, 2005.

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$883,910 as of December 31, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate 2006 bond, creating a lower synthetic fixed interest rate. Because the coupons on the County's variable-rate 2006 bond adjust to changing interest rates, the 2006 bond does not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk, should the relationship between LIBOR and BMA converge, thus changing the synthetic rate on the 2006 bond. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.716%) and the synthetic rate as of December 31, 2005 (4.272%). The termination exposure of the General Obligation Bond Series 2006 swap agreement at December 31, 2005 equals \$883,910 (the County would have to pay this amount to terminate the swap).

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the variable rate debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, variable rate 2006 bond interest payments and net swap payments will vary.

Fiscal Year Ending December 31	Variable-Rate Bond Principal	Interest	Interest Rate Swap, Net	Total
2006	\$ -	\$ 732,563	\$ 192,406	\$ 924,969
2007	620,000	959,471	192,406	1,771,877
2008	645,000	935,735	187,868	1,768,603
2009	670,000	911,070	183,146	1,764,216
2010	700,000	885,337	178,242	1,763,579
2011-2031	23,650,000	10,294,528	2,157,715	36,102,243
Total	<u>\$ 26,285,000</u>	<u>\$ 14,718,704</u>	<u>\$ 3,091,783</u>	<u>\$ 44,095,487</u>

General Obligation Bond Series 2008

Objective of the Interest Rate Swap

In order to take advantage of the interest rate environments in the financial markets and to lock in a fixed rate relative to the variable rate interest payments it will be required to make for the variable rate interest bearing General Obligation Bond Series of 2008 (the "2008 bond"), which is to be issued in the amount of \$8,800,000, the County entered into an interest rate swap in March, 2005. The intention of the swap is to effectively change the variable interest rate attributable to the anticipated 2008 bond issuance to a fixed rate of 3.844% for periodic scheduled payments.

Terms

The 2008 bond and the related agreement mature on March 1, 2033. The swap's notional amount of \$8,800,000 matches the anticipated variable rate 2008 bond's notional amount of \$8,800,000. Under the swap, the County pays to the provider periodic payments not to exceed 3.844% and receives a variable payment computed as 68% of the London Interbank Offered Rate (LIBOR). The 2008 bond's variable rate is calculated annually using a weekly rate based on the variable Bond Market Association Municipal Swap Index (BMA), as determined and conveyed by the 2008 bond's remarketing agent. The weekly rate based on BMA equaled 3.54% as of December 31, 2005.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$349,690 as of December 31, 2005. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate 2008 bond, creating a lower synthetic fixed interest rate. Because the coupons on the County's variable-rate 2008 bond adjust to changing interest rates, the 2008 bond does not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk, should the relationship between LIBOR and BMA converge, thus changing the synthetic rate on the 2008 bond. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.844%) and the synthetic rate as of December 31, 2005 (4.400%). The termination exposure of the General Obligation Bond Series 2008 swap agreement at December 31, 2005 equals \$349,690 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the variable rate debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, variable rate 2008 bond interest payments and net swap payments will vary.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Fiscal Year Ending December 31	Variable-Rate Bond Principal	Bond Interest*	Interest Rate Swap, Net	Total
2006	\$ -	\$ -	\$ -	\$ -
2007	-	-	-	-
2008	-	233,640	56,760	290,400
2009	205,000	311,520	75,680	592,200
2010	215,000	304,263	73,917	593,180
2011-2033	8,380,000	4,099,497	995,923	13,475,420
Total	\$ 8,800,000	\$ 4,948,920	\$ 1,202,280	\$ 14,951,200

* Because the General Obligation Bond Series of 2008 was not issued as of the date of the Report of Independent Auditors (June 9, 2006), interest attributable to the variable-rate 2008 bond was calculated using the value of the applicable interest rate as of December 31, 2006; which equaled 3.54% (i.e., Weekly Rate BMA at December 31, 2005).

General Obligation Note Series 2001A

Objective of the Interest Rate Swap

In an effort to take advantage of the London Interbank Offered Rate (LIBOR)/Bond Market Association Municipal Swap Index (BMA) ratio curve in the financial markets, and in an effort to synthetically change the rate relative to the fixed-rate interest payments it is required to make for the General Obligation Note Series of 2001A (the "2001A note"), the County entered into an interest rate basis swap in June 2005.

Terms

The 2001A note and the related agreement mature on November 1, 2027. The swap's notional amount of \$16,410,000 matches the 2001A note's notional amount of \$16,410,000. Under the swap, the County pays to the provider periodic payments equal to the variable Bond Market Association Municipal Swap Index (BMA), which equaled 3.54% as of December 31, 2005, and receives a payment computed as 68% of the one-month London Interbank Offered Rate (LIBOR), which equaled 4.38875% as of December 31, 2005; 68% of which equals 2.98%. In connection with and in consideration for entering into this swap agreement the County received an upfront payment of \$785,000 from the counterparty on July 1, 2005. \$635,000 of the \$785,000 received was deposited in an Interest Rate Management Contingency Fund in order to pay any amounts payable to the counterparty during the duration of the interest rate basis swap.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$1,056,916 as of December 31, 2005. The swap's negative fair value may be countered only to the extent that 68% of one-month LIBOR is greater than the BMA Index. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon 2001A notes due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk to the extent BMA exceeds 68% of one-month LIBOR. The effect of this difference in basis is indicated by the difference between the intended rate (3.54%) and the synthetic rate as of December 31, 2005 (3.756%). The termination exposure of the General Obligation Note Series 2001A swap agreement at December 31, 2005 equals \$1,056,916 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the 2001A note debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, net swap payments will vary.

Fiscal Year Ending December 31	Fixed-Rate Note		Interest Rate	Total
	Principal	Interest	Swap, Net	
2006	\$ 5,000	\$ 842,110	\$ 91,240	\$ 938,350
2007	5,000	841,950	91,212	938,162
2008	5,000	841,750	91,184	937,934
2009	5,000	841,550	91,156	937,706
2010	5,000	841,350	91,128	937,478
2011-2027	16,385,000	10,070,175	1,101,381	27,556,556
Total	<u>\$ 16,410,000</u>	<u>\$ 14,278,885</u>	<u>\$ 1,557,301</u>	<u>\$ 32,246,186</u>

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

General Obligation Bond Series 2003

Objective of the Interest Rate Swap

In an effort to take advantage of the London Interbank Offered Rate (LIBOR)/Bond Market Association Municipal Swap Index (BMA) ratio curve in the financial markets, and in an effort to synthetically change the rate relative to the fixed-rate interest payments it is required to make for the General Obligation Bond Series of 2003 (the "2003 bond"), the County entered into an interest rate basis swap in July 2005.

Terms

The 2003 bond and the related agreement mature on November 1, 2032. The swap's notional amount of \$22,390,000 matches the 2003 bond's notional amount of \$22,390,000. Under the swap, the County pays to the provider periodic payments equal to the variable Bond Market Association Municipal Swap Index (BMA), which equaled 3.54% as of December 31, 2005, and receives a payment computed as 68% of the one-month London Interbank Offered Rate (LIBOR), which equaled 4.38875% as of December 31, 2005; 68% of which equals 2.98%. In connection with and in consideration for entering into this swap agreement the County received an upfront payment of \$1,032,000 from the counterparty on July 11, 2005. \$832,000 of the \$1,032,000 received was deposited in an Interest Rate Management Contingency Fund in order to pay any amounts payable to the counterparty during the duration of the interest rate basis swap.

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$1,357,057 as of December 31, 2005. The swap's negative fair value may be countered only to the extent that 68% of one-month LIBOR is greater than the BMA Index. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon 2003 bonds due on the date of each future net settlement on the swap.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Basis Risk and Termination Risk

The swap exposes the County to basis risk to the extent BMA exceeds 68% of one-month LIBOR. The effect of this difference in basis is indicated by the difference between the intended rate (3.54%) and the synthetic rate as of December 31, 2005 (3.556%). The termination exposure of the General Obligation Bond Series 2003 swap agreement at December 31, 2005 equals \$1,357,057 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the 2003 bond debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, net swap payments will vary.

Fiscal Year Ending December 31	Fixed-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2006	\$ 480,000	\$ 983,189	\$ 124,488	\$ 1,587,677
2007	495,000	968,789	121,820	1,585,609
2008	505,000	953,939	119,067	1,578,006
2009	520,000	938,789	116,260	1,575,049
2010	540,000	920,589	113,368	1,573,957
2011-2032	19,850,000	12,293,428	1,463,086	33,606,514
Total	<u>\$ 22,390,000</u>	<u>\$ 17,058,723</u>	<u>\$ 2,058,089</u>	<u>\$ 41,506,812</u>

General Obligation Bond Series 2004A

Objective of the Interest Rate Swap

In an effort to take advantage of the London Interbank Offered Rate (LIBOR)/Bond Market Association Municipal Swap Index (BMA) ratio curve in the financial markets, and in an effort to synthetically change the rate relative to the fixed-rate interest payments it is required to make for the General Obligation Bond Series of 2004A (the "2004A bond"), the County entered into an interest rate basis swap in July 2005.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Terms

The 2004A bond and the related agreement mature on November 1, 2023. The swap's notional amount of \$26,290,000 matches the 2004A bond's notional amount of \$26,290,000. Under the swap, the County pays to the provider periodic payments equal to the variable Bond Market Association Municipal Swap Index (BMA), which equaled 3.54% as of December 31, 2005, and receives a payment computed as 68% of the one-month London Interbank Offered Rate (LIBOR), which equaled 4.38875% as of December 31, 2005; 68% of which equals 2.98%. In connection with and in consideration for entering into this swap agreement the County received an upfront payment of \$719,500 from the counterparty on June 17, 2005. \$569,500 of the \$719,500 received was deposited in an Interest Rate Management Contingency Fund in order to pay any amounts payable to the counterparty during the duration of the interest rate basis swap.

Fair Value

Because of interest rate fluctuations since the execution of the swap, the swap has a negative fair value of \$977,914 as of December 31, 2005. The swap's negative fair value may be countered only to the extent that 68% of one-month LIBOR is greater than the BMA Index. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon 2004A bonds due on the date of each future net settlement on the swap.

Basis Risk and Termination Risk

The swap exposes the County to basis risk to the extent BMA exceeds 68% of one-month LIBOR. The effect of this difference in basis is indicated by the difference between the intended rate (3.54%) and the synthetic rate as of December 31, 2005 (3.056%). The termination exposure of the General Obligation Bond Series 2004A swap agreement at December 31, 2005 equals \$977,914 (the County would have to pay this amount to terminate the swap).

Swap Payments and Associated Debt

Using rates as of December 31, 2005, debt service requirements of the 2004A bond debt and net swap payments are illustrated as follows. Interest calculations were based on rates as of December 31, 2005. As rates vary, net swap payments will vary.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

18. Interest Rate Swaps (continued)

Fiscal Year Ending December 31	Fixed-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2006	\$ 1,030,000	\$ 1,184,663	\$ 146,172	\$ 2,360,835
2007	1,055,000	1,158,913	140,446	2,354,359
2008	1,085,000	1,127,263	134,580	2,346,843
2009	1,120,000	1,094,713	128,547	2,343,260
2010	1,155,000	1,055,513	122,320	2,332,833
2011-2023	20,845,000	7,931,663	887,987	29,664,650
Total	<u>\$ 26,290,000</u>	<u>\$ 13,552,728</u>	<u>\$ 1,560,052</u>	<u>\$ 41,402,780</u>

19. Interest Rate Swaptions

General Obligation Note Series 2001A

Objective of the Swaption

In order to take advantage of short-term interest rates in the financial market, the County has incurred a certain amount of variable interest rate exposure and has entered into a fixed-to-floating interest rate swaption. The intent of the swaption was to sell an option to a qualified counterparty that gives the counterparty the right, but not the obligation, to effectively change the interest rate paid on the County's General Obligation Notes Series of 2001A (the "2001A Notes") from a fixed rate to a floating/variable rate.

Terms

The swaption was entered into on September 15, 2004, at which time the County received an up-front payment of \$870,000 from the counterparty. The swaption payment of \$870,000 is being deferred and amortized over the life of the swaption agreement. The 2001A Notes and the related swaption agreement mature on November 1, 2027. The swaption's notional amount of \$16,410,000 as of December 31, 2005 matches the 2001A Notes' notional amount of \$16,410,000 as of December 31, 2005. Under the swaption, the counterparty has the option to exercise the swaption on or after September 1, 2005. If exercised, the counterparty would make periodic payments to the County equaling a fixed rate of 3.904% multiplied by the 2001A Notes' notional amount, while the County would make periodic payments to the counterparty equal to the varying Bond Market Association Municipal Swap Index (BMA) rate multiplied by the 2001A Notes' notional amount. As of December 31, 2005, BMA equaled 3.54%. The maximum interest rate the County that could be subject to pay is 23%. As of 12/31/05, this swaption has not been exercised.

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

19. Interest Rate Swaptions (continued)

Fair Value

As of December 31, 2005, the swaption had a negative fair value of \$1,144,741. The fair value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Interest Rate Risk

If the swaption is exercised, the County will receive a fixed swap rate of 3.904% in exchange for a floating rate equal to the BMA Index. While the risk that the BMA Index rises above the fixed swap rate over the term of the 2001A swaption increases the County's exposure to Interest Rate Risk, BMA equaled 3.54% at December 31, 2005.

Termination Risk

The termination exposure of the 2001A swaption agreement at December 31, 2005 equals \$1,144,741 (the County would have to pay this amount to terminate the swaption).

General Obligation Bond Series 2002A

Objective of the Swaption

In order to take advantage of short-term interest rates in the financial market, the County has incurred a certain amount of variable interest rate exposure and has entered into a fixed-to-floating interest rate swaption. The intent of the swaption was to sell an option to a qualified counterparty that gives the counterparty the right, but not the obligation, to effectively change the interest rate paid on the County's General Obligation Bonds Series of 2002A (the "2002A Bonds") from a fixed rate to a floating/variable rate.

Terms

The swaption was entered into on September 15, 2004, at which time the County received an up-front payment of \$395,000 from the counterparty. The swaption payment of \$395,000 is being deferred and amortized over the life of the swaption agreement. The 2002A Bonds and the related swaption agreement mature on

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

19. Interest Rate Swaptions (continued)

November 1, 2020. The swaption's notional amount of \$7,335,000 as of December 31, 2005 matches the 2002A Bonds' notional amount of \$7,335,000 as of December 31, 2005. Under the swaption, the counterparty has the option to exercise the swaption on or after September 1, 2005. If exercised, the counterparty would make periodic payments to the County equaling a fixed rate of 3.804% multiplied by the 2002A Bonds' notional amount, while the County would make periodic payments to the counterparty equal to the varying Bond Market Association Municipal Swap Index (BMA) rate multiplied by the 2002A Bonds' notional amount. As of December 31, 2005, BMA equaled 3.54%. The maximum interest rate that the County could be subject to pay is 23%. As of 12/31/05, this swaption has not been exercised.

Fair Value

As of December 31, 2005, the swaption had a negative fair value of \$460,717. The fair value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Interest Rate Risk

If the swaption is exercised, the County will receive a fixed swap rate of 3.804% in exchange for a floating rate equal to the BMA Index. While the risk that the BMA Index rises above the fixed swap rate over the term of the 2002A swaption increases the County's exposure to Interest Rate Risk, BMA equaled 3.54% at December 31, 2005.

Termination Risk

The termination exposure of the 2002A swaption agreement at December 31, 2005 equals \$460,717 (the County would have to pay this amount to terminate the swaption).

General Obligation Bond Series 2003

Objective of the Swaption

In order to take advantage of short-term interest rates in the financial market, the County has incurred a certain amount of variable interest rate exposure and has entered into a fixed-to-floating interest rate swaption. The intent of the swaption was to sell an option to a qualified counterparty that gives the counterparty the right, but not

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

19. Interest Rate Swaptions (continued)

the obligation, to effectively change the interest rate paid on the County's General Obligation Bonds Series of 2003 (the "2003 Bonds") from a fixed rate to a floating/variable rate.

Terms

The swaption was entered into on September 9, 2004, at which time the County received an up-front payment of \$1,150,000 from the counterparty. The swaption payment of \$1,150,000 is being deferred and amortized over the life of the swaption agreement. The 2003 Bonds and the related swaption agreement mature on November 1, 2032. The swaption's notional amount of \$22,390,000 as of December 31, 2005 matches the 2003 Bonds' notional amount of \$22,390,000 as of December 31, 2005. Under the swaption, the counterparty has the option to exercise the swaption on or after September 1, 2005. If exercised, the counterparty would make periodic payments to the County equaling a fixed rate of 3.95% multiplied by the 2003 Bonds' notional amount, while the County would make periodic payments to the counterparty equal to the varying Bond Market Association Municipal Swap Index (BMA) rate multiplied by the 2003 Bonds' notional amount. As of December 31, 2005, BMA equaled 3.54%. The maximum interest rate that the County could be subject to pay is 23%. As of 12/31/05, this swaption has not been exercised.

Fair Value

As of December 31, 2005, the swaption had a negative fair value of \$1,414,471. The fair value was calculated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon notes due on the date of each future net settlement on the swap.

Interest Rate Risk

If the swaption is exercised, the County will receive a fixed swap rate of 3.95% in exchange for a floating rate equal to the BMA Index. While the risk that the BMA Index rises above the fixed swap rate over the term of the 2003 swaption increases the County's exposure to Interest Rate Risk, BMA equaled 3.54% at December 31, 2005.

Termination Risk

The termination exposure of the 2003 swaption agreement at December 31, 2005 equals \$1,414,471 (the County would have to pay this amount to terminate the swaption).

County of Lancaster, Pennsylvania

Notes to Financial Statements (continued)

20. Sale of Conestoga View Nursing Facility

On September 30, 2005, the County sold all capital assets and associated operations related to the Conestoga View Nursing Facility, reported as an enterprise fund of the County as described in Note 1 to the basic financial statements, for \$8,500,000, which, after payment of real estate transfer tax associated with the sale, resulted in proceeds from the sale equaling \$8,415,000. A transfer of \$8,410,642 was made to the General Fund as a result of the sale and conclusion of the County's operation of the Conestoga View Nursing Facility. The disposals of capital assets associated with the sale of the Conestoga View Nursing Facility are included and reflected in Note 7 to the basic financial statements within business type activities. At the date of sale, the net book value of all capital assets associated with the Conestoga View Nursing Facility equaled \$6,910,454, which resulted in a net gain on the sale of capital assets totaling \$1,504,546.

In addition to all capital assets and associated operations of the Conestoga View Nursing Facility, the County also conveyed to the buyer through the same sales agreement dated September 30, 2005 a building used in conjunction with the County's provision of Children & Youth Services and a building used to store voting machines and house portions of the County's information technology function (Buildings), both of which were located on the grounds of the Conestoga View Nursing Facility campus. At the date of sale, the net book values of the Buildings were minimal. The effect of the disposal of the Buildings is included and reflected in Note 7 to the basic financial statements within governmental activities. In exchange for the conveyance of the Buildings, the County retained the right to continue to utilize the Buildings for a period of 10 years subsequent to the date of sale, and the right to utilize a portion of the basement of one of the buildings associated with the Conestoga View Nursing Facility as part of the County morgue for a period of 3 years subsequent to the date of sale; however, the County also retains responsibility for the costs associated with ongoing repairs, maintenance, utilities and other operating costs associated with the use of the Buildings.

21. Subsequent Events

On March 1, 2006, the County issued variable-rate interest-bearing General Obligation Bonds, Series 2006, in the amount of \$26,285,000 to finance various capital projects and capital grant programs and to pay the costs of issuing the bonds. Principal is payable annually, ranging in amounts from \$620,000 to \$1,635,000 from March 2007 to March 2031.

On May 1, 2006, the County issued interest-bearing General Obligation Bonds, Series 2006A, in the amount of \$25,000,000 to provide funding for both farmland and natural lands preservation and projects in the city, boroughs, and urban growth areas of townships of the County. Principal is payable annually, ranging in amounts from \$830,000 to \$1,865,000 from May 2007 to May 2026. Interest is payable semiannually, ranging in amounts from 3.625% to 5.00% from November 2006 to May 2026.

Required Supplementary Information

County of Lancaster, Pennsylvania
 Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2000	609,240	0%
2001	910,617	0%
2002	2,823,744	17%
2003	4,775,487	115%
2004	5,827,903	94%
2005	7,534,558	98%

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

Valuation date	December 31, 2005
Actuarial cost method	Aggregate
Amortization method	Not applicable*
Remaining amortization period	Not applicable*
Amortization period open or closed	Not applicable*
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.75% - 4.5% at graduated .25% increments over 3 years.
Includes inflation at:	3%
Post-retirement benefit increases	None

* The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - General Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget --
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$12,307,831	\$16,642,788	\$7,339,067	\$ (9,303,721)
Real estate taxes	82,803,922	82,803,922	83,710,087	906,165
Departmental	14,944,520	16,334,115	16,260,112	(74,003)
Fines and costs	3,112,435	3,112,435	2,844,899	(267,536)
Interest	757,210	757,210	1,183,228	426,018
Indirect reimbursement	2,106,586	2,106,586	1,916,160	(190,426)
Other	456,256	456,256	8,708,711	8,252,455
Total revenues	<u>116,488,760</u>	<u>122,213,312</u>	<u>121,962,264</u>	<u>(251,048)</u>
EXPENDITURES				
Current:				
General government	35,542,930	40,525,547	31,923,255	8,602,292
Public safety	9,621,475	9,731,074	8,699,696	1,031,378
Health, education, and welfare:				
Other	1,003,426	873,125	1,041,650	(168,525)
Judicial	31,549,719	32,163,393	30,598,491	1,564,902
Corrections	16,417,996	17,065,051	16,681,480	383,571
Cultural and recreation	2,841,316	2,915,067	2,619,216	295,851
Capital outlay	3,701,319	3,385,284	716,577	2,668,707
Debt service:				
Principal retirement	5,330,041	5,330,041	5,330,944	(903)
Interest and fiscal charges	7,570,122	7,570,122	7,501,091	69,031
Total expenditures	<u>113,578,344</u>	<u>119,558,704</u>	<u>105,112,400</u>	<u>14,446,304</u>
Excess (deficiency) of revenues over (under) expenditures	2,910,416	2,654,608	16,849,864	14,195,256
OTHER FINANCING SOURCES (USES)				
Transfers in	520,000	520,000		(520,000)
Transfers out	(10,677,770)	(10,677,770)	(10,119,147)	558,623
Total other financing (uses)	<u>(10,157,770)</u>	<u>(10,157,770)</u>	<u>(10,119,147)</u>	<u>38,623</u>
Net change in fund balances	<u>\$ (7,247,354)</u>	<u>\$ (7,503,162)</u>	<u>6,730,717</u>	<u>\$14,233,879</u>
Net increase in assets and liabilities			1,714,078	
Fund balances, January 1, cash basis			<u>10,655,902</u>	
Fund balance, December 31, cash basis			<u>19,100,697</u>	
Differences from modified accrual basis:				
Receivables:				
Taxes, net			2,286,828	
Fines and costs, net			4,588,947	
Accounts			336,623	
Due from other funds			397,649	
Due from other governments			2,701,610	
Advances to providers			67,667	
Accounts payable			(2,856,449)	
Deferred revenue - taxes, fines and costs receivable			(5,623,839)	
Unearned revenue			(471,539)	
Payroll related accruals			<u>(3,317,397)</u>	
Fund balances at December 31, modified accrual basis			<u>\$17,210,797</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Children and Youth Services Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget --
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$29,746,167	\$29,746,167	\$30,611,317	\$865,150
Departmental	1,801,018	1,801,018	1,773,644	(27,374)
Interest	600	600	403	(197)
Other			1,350	1,350
Prior Year	2,397,182	2,397,182	2,035,485	(361,697)
Total revenues	<u>33,944,967</u>	<u>33,944,967</u>	<u>34,422,199</u>	<u>477,232</u>
EXPENDITURES				
Current:				
Health, education, and welfare:				
Children and youth	39,178,442	39,124,942	35,854,224	3,270,718
Capital outlay	104,600	158,100	65,853	92,247
Total expenditures	<u>39,283,042</u>	<u>39,283,042</u>	<u>35,920,077</u>	<u>3,362,965</u>
Excess (deficiency) of revenues over (under) expenditures	(5,338,075)	(5,338,075)	(1,497,878)	3,840,197
OTHER FINANCING SOURCES (USES)				
Transfers in	5,287,070	5,287,070	4,928,810	(358,260)
Net change in fund balances	<u>\$ (51,005)</u>	<u>\$ (51,005)</u>	3,430,932	<u>\$3,481,937</u>
Net decrease in due to other funds			(1,450,447)	
Fund balances, January 1, cash basis			4,246	
Fund balance, December 31, cash basis			<u>1,984,731</u>	
Differences from modified accrual basis:				
Other receivables			17,999	
Due from other governments			2,793,234	
Accounts payable			(1,825,488)	
Unearned revenue			(845,339)	
Payroll related accruals			(175,506)	
Fund balances at December 31, modified accrual basis			<u>\$1,949,631</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Mental Health/Mental Retardation Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget --
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$48,414,960	\$52,114,960	\$51,357,908	\$ (757,052)
Departmental	862,500	862,500	757,267	(105,233)
Interest	125,000	125,000	181,942	56,942
Other			287,159	287,159
Total revenues	<u>49,402,460</u>	<u>53,102,460</u>	<u>52,584,276</u>	<u>(518,184)</u>
EXPENDITURES				
Current:				
Health, education, and welfare:				
Mental health/mental retardation	50,474,984	53,961,584	57,043,928	(3,082,344)
Capital outlay	6,066	219,466	128,675	90,791
Total expenditures	<u>50,481,050</u>	<u>54,181,050</u>	<u>57,172,603</u>	<u>(2,991,553)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,078,590)	(1,078,590)	(4,588,327)	(3,509,737)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,014,824	1,014,824	1,053,756	38,932
Net change in fund balances	<u>\$ (63,766)</u>	<u>\$ (63,766)</u>	<u>(3,534,571)</u>	<u>\$ (3,470,805)</u>
Fund balances, January 1, cash basis			<u>6,389,528</u>	
Fund balance, December 31, cash basis			<u>2,854,957</u>	
Differences from modified accrual basis:				
Advances to providers			2,145,220	
Accounts payable			(3,636,986)	
Unearned revenue			(1,229,642)	
Payroll related accruals			<u>(133,549)</u>	
Fund balances at December 31, modified accrual basis			<u>\$0</u>	

County of Lancaster, Pennsylvania

Notes to Required Supplementary Information

1. Budgetary Basis of Accounting

The County's budgetary basis is substantially on a cash basis but includes some payroll related accruals and related interfund transactions.

2. Budgetary Perspective Differences

The County's fund structure for budgetary purposes differs from its fund structure for GAAP reporting purposes. Specifically, the revenues and expenses of the County's 911 operations which are reported in the 911 Operations Enterprise Fund for GAAP reporting purposes are reported as revenues and expenses in the County's General Fund for budgetary purposes.

General Fund revenues per schedule of revenues, expenditures, and changes in fund balances - budget and actual - budgetary basis - General Fund	\$121,962,264
Net adjustment to General Fund revenues based on differences in revenue recognition between the budgetary basis and GAAP basis	(8,975,433)
Less: 911 operations revenues recognized in the General Fund on a budgetary basis reclassified to an enterprise fund for GAAP reporting purposes	<u>(4,038,593)</u>
General Fund revenues per statement of revenues, expenditures, and changes in fund balances - government funds	<u><u>\$108,948,238</u></u>
General Fund expenditures per schedule of revenues, expenditures, and changes in fund balances - budget and actual - budgetary basis - General Fund	\$105,112,400
Net adjustment to General Fund expenditures based on differences in expenditure recognition between the budgetary basis and GAAP basis	(208,303)
Less: 911 operations expenditures recognized in the General Fund on a budgetary basis reclassified to an enterprise fund for GAAP reporting purposes	<u>(7,556,272)</u>
General Fund expenditures per statement of revenues, expenditures, and changes in fund balances - government funds	<u><u>\$97,347,825</u></u>

3. Excess of Expenditures over Appropriations in Major Funds

The following major fund had an excess of actual expenditures over budget for the year ended December 31, 2005.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Percent Excess over Appropriations</u>
Mental Health/Mental Retardation	\$ 54,181,050	\$ 57,172,603	5.52%

County of Lancaster, Pennsylvania

Combining and Individual Fund Statements and Schedules

The following nonmajor governmental funds include both special revenue funds used to account for revenues that are legally restricted to expenditures for particular purposes and the Debt Service Fund.

Domestic Relations Fund

This fund is used to account for amounts received from various federal and local sources. These funds are restricted to enforce the support obligations owed by absent parents, locate absent parents, and establish paternity to obtain child and spousal support.

Employment and Training Fund

This fund is used to account for amounts received from various federal and state sources. These funds are restricted to operate programs wherein job training and employment opportunities are provided for the economically disadvantaged, unemployed, or under employed citizens of Lancaster County.

Office of Aging Fund

This fund is used to account for amounts received from various federal, state, and local sources. These funds are restricted to operate programs which assist citizens age 60 and older to maintain maximum independence and dignity in a home environment.

Drug and Alcohol Fund

This fund is used to account for amounts received from various federal, state, and local sources. These funds are restricted to plan, coordinate, and administer service programs for the control of alcohol and drug abuse.

Liquid Fuels Fund

This fund is used to account for amounts received from the state. These funds are restricted to building and improving local roads and bridges.

Community Development Block Grant Fund

This fund is used to account for amounts received from various federal and state sources. These funds are passed through to the Lancaster County Redevelopment Authority to be used for the development of decent housing, a suitable living environment, and expanded economic opportunities within the County.

Debt Service Fund

This fund is used to account for accumulation of resources to pay principal and interest on County general obligation bonds and notes payable.

County of Lancaster, Pennsylvania

Combining Balance Sheet - Nonmajor Governmental Funds

December 31, 2005

	Domestic Relations	Employment and Training	Office of Aging	Drug and Alcohol	Liquid Fuels	Debt Service	Community Development Block Grant	Total Nonmajor Governmental Funds
ASSETS								
Cash and temporary investments:								
Operating	\$ 4,626,000	\$ -	\$ 221,439	\$ 340,131	\$ 3,078,761	\$ -	\$ -	\$ 8,266,331
Other	-	-	315,557	-	-	-	-	315,557
Investments	-	-	-	-	-	1,796,517	-	1,796,517
Due from other governments	777,772	513,183	381,872	428,041	607	-	-	2,101,475
Advances to providers	-	-	4,676	-	-	-	-	4,676
Total assets	\$ 5,403,772	\$ 513,183	\$ 923,544	\$ 768,172	\$ 3,079,368	\$ 1,796,517	\$ -	\$ 12,484,556
LIABILITIES								
Liabilities:								
Accounts payable	\$ 28,906	\$ 95,774	\$ 268,768	\$ 758,426	\$ 13,911	\$ -	\$ -	\$ 1,165,785
Due to other funds	-	397,530	-	-	119	-	-	397,649
Deferred revenue	-	-	183,112	-	-	-	-	183,112
Payroll related accruals	58,680	19,879	69,003	9,746	2,709	-	-	160,017
Total liabilities	87,586	513,183	520,883	768,172	16,739	-	-	1,906,563
FUND BALANCES								
Reserved for advances	-	-	4,676	-	-	-	-	4,676
Unreserved:								
Designated for debt service	-	-	-	-	-	1,796,517	-	1,796,517
Designated for programmatic expenditures	5,316,186	-	397,985	-	3,062,629	-	-	8,776,800
Total fund balances	5,316,186	-	402,661	-	3,062,629	1,796,517	-	10,577,993
Total liabilities and fund balances	\$ 5,403,772	\$ 513,183	\$ 923,544	\$ 768,172	\$ 3,079,368	\$ 1,796,517	\$ -	\$ 12,484,556

County of Lancaster, Pennsylvania

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

For the Year Ended December 31, 2005

	Domestic Relations	Employment and Training	Office of Aging	Drug and Alcohol	Liquid Fuels	Debt Service	Community Development Block Grant	Total Nonmajor Governmental Funds
REVENUES								
Intergovernmental	\$ 3,365,439	\$ 3,472,330	\$ 7,616,767	\$ 4,834,617	\$ 856,450	\$ -	\$ 5,836,419	\$ 25,982,022
Departmental	85,321	-	65,375	-	-	-	-	150,696
Interest	133,258	-	-	2,236	75,252	40,271	-	251,017
Other	-	220	19,028	90,823	770	-	-	110,841
Total revenues	3,584,018	3,472,550	7,701,170	4,927,676	932,472	40,271	5,836,419	26,494,576
EXPENDITURES								
Current:								
Health, education, and welfare:								
Drug and alcohol	-	-	-	5,145,200	-	-	-	5,145,200
Employment and training	-	3,463,807	-	-	-	-	-	3,463,807
Office of aging	-	-	7,917,165	-	-	-	-	7,917,165
Judicial	4,376,095	-	-	-	-	-	-	4,376,095
Community development	-	-	-	-	-	-	5,836,419	5,836,419
Capital outlay	1,385	8,743	25,769	3,579	420,860	-	-	460,336
Debt service:								
Principal retirement	-	-	-	-	-	2,845,000	-	2,845,000
Total expenditures	4,377,480	3,472,550	7,942,934	5,148,779	420,860	2,845,000	5,836,419	30,044,022
Excess (deficiency) of revenues over (under) expenditures	(793,462)	-	(241,764)	(221,103)	511,612	(2,804,729)	-	(3,549,446)
OTHER FINANCING SOURCES								
Transfers in	1,427,227	-	406,177	221,103	-	615,000	-	2,669,507
Total other financing sources	1,427,227	-	406,177	221,103	-	615,000	-	2,669,507
Net change in fund balances	633,765	-	164,413	-	511,612	(2,189,729)	-	(879,939)
Fund balances, January 1	4,682,421	-	238,248	-	2,551,017	3,986,246	-	11,457,932
Fund balances, December 31	\$ 5,316,186	\$ -	\$ 402,661	\$ -	\$ 3,062,629	\$ 1,796,517	\$ -	\$ 10,577,993

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Domestic Relations Special Revenue Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget –
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$2,993,147	\$2,993,147	\$3,564,247	\$571,100
Departmental	100,000	100,000	85,321	(14,679)
Interest	30,000	30,000	133,258	103,258
Total revenues	<u>3,123,147</u>	<u>3,123,147</u>	<u>3,782,826</u>	<u>659,679</u>
EXPENDITURES				
Current:				
Judicial	4,813,645	4,796,635	4,361,548	435,087
Capital outlay		17,010	1,385	15,625
Total expenditures	<u>4,813,645</u>	<u>4,813,645</u>	<u>4,362,933</u>	<u>450,712</u>
Excess (deficiency) of revenues over (under) expenditures	(1,690,498)	(1,690,498)	(580,107)	1,110,391
OTHER FINANCING SOURCES (USES)				
Transfers in	1,582,851	1,582,851	1,427,227	(155,624)
Net change in fund balances	<u>\$ (107,647)</u>	<u>\$ (107,647)</u>	<u>847,120</u>	<u>\$954,767</u>
Fund balances, January 1, cash basis			<u>3,778,880</u>	
Fund balance, December 31, cash basis			<u>4,626,000</u>	
Differences from modified accrual basis:				
Due from other governments			777,772	
Accounts payable			(28,906)	
Payroll related accruals			(58,680)	
Fund balances at December 31, modified accrual basis			<u>\$5,316,186</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Employment and Training Special Revenue Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget –
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$3,601,266	\$4,284,266	\$3,521,299	\$ (762,967)
Other revenues			\$220	\$220
Total revenues	<u>3,601,266</u>	<u>4,284,266</u>	<u>3,521,519</u>	<u>(762,747)</u>
EXPENDITURES				
Current:				
Health, education, and welfare:				
Employment and training	3,621,526	4,301,957	3,488,611	813,346
Capital outlay	6,174	8,743	8,743	-
Total expenditures	<u>3,627,700</u>	<u>4,310,700</u>	<u>3,497,354</u>	<u>813,346</u>
Net change in fund balances	<u>\$ (26,434)</u>	<u>\$ (26,434)</u>	<u>24,165</u>	<u>\$50,599</u>
Net increase in due to other funds			(24,165)	
Fund balances, January 1, cash basis			-	
Fund balance, December 31, cash basis			-	
Differences from modified accrual basis:				
Due from other governments			513,183	
Accounts payable			(95,774)	
Due to other funds			(397,530)	
Payroll related accruals			<u>(19,879)</u>	
Fund balances at December 31, modified accrual basis			<u>\$ -</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Office of Aging Special Revenue Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget –
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$7,150,723	\$7,150,723	\$7,564,893	\$414,170
Interest			65,375	65,375
Other	453,575	453,575	19,933	(433,642)
Total revenues	<u>7,604,298</u>	<u>7,604,298</u>	<u>7,650,201</u>	<u>45,903</u>
EXPENDITURES				
Current:				
Health, education, and welfare:				
Office of Aging	8,011,787	7,977,775	7,921,476	56,299
Capital outlay	1,085	35,097	25,769	9,328
Total expenditures	<u>8,012,872</u>	<u>8,012,872</u>	<u>7,947,245</u>	<u>65,627</u>
Excess (deficiency) of revenues over (under) expenditures	(408,574)	(408,574)	(297,044)	111,530
OTHER FINANCING SOURCES (USES)				
Transfers in	392,757	392,757	406,177	13,420
Net change in fund balances	<u>\$ (15,817)</u>	<u>\$ (15,817)</u>	<u>109,133</u>	<u>\$124,950</u>
Fund balances, January 1, cash basis			<u>427,863</u>	
Fund balance, December 31, cash basis			<u>536,996</u>	
Differences from modified accrual basis:				
Due from other governments			381,872	
Advances to providers			4,676	
Accounts payable			(268,768)	
Deferred revenue			(183,112)	
Payroll related accruals			<u>(69,003)</u>	
Fund balances at December 31, modified accrual basis			<u>\$402,661</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Drug and Alcohol Special Revenue Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget –
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$5,155,503	\$5,155,503	\$4,923,839	\$ (231,664)
Departmental			265,689	265,689
Interest			2,236	2,236
Other			18,490	18,490
Total revenues	<u>5,155,503</u>	<u>5,155,503</u>	<u>5,210,254</u>	<u>54,751</u>
EXPENDITURES				
Current:				
Health, education, and welfare:				
Drug and alcohol	5,512,620	5,508,620	5,476,975	31,645
Capital outlay		4,000	3,579	421
Total expenditures	<u>5,512,620</u>	<u>5,512,620</u>	<u>5,480,554</u>	<u>32,066</u>
Deficiency of revenues under expenditures	(357,117)	(357,117)	(270,300)	86,817
OTHER FINANCING SOURCES				
Transfers in	349,151	349,151	221,103	(128,048)
Net change in fund balances	<u>\$ (7,966)</u>	<u>\$ (7,966)</u>	<u>(49,197)</u>	<u>\$ (41,231)</u>
Net decrease in due to other funds			-	
Fund balances, January 1, cash basis			<u>389,328</u>	
Fund balance, December 31, cash basis			<u>340,131</u>	
Differences from modified accrual basis:				
Due from other governments			428,041	
Accounts payable			(758,426)	
Deferred revenue			<u>(9,746)</u>	
Fund balances at December 31, modified accrual basis			<u>\$ -</u>	

County of Lancaster, Pennsylvania

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Budgetary Basis - Liquid Fuels Special Revenue Fund

For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget –
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental	\$820,000	\$820,000	\$856,613	\$36,613
Interest	45,000	45,000	75,252	30,252
Other			770	770
Total revenues	<u>865,000</u>	<u>865,000</u>	<u>932,635</u>	<u>67,635</u>
EXPENDITURES				
Current:				
Roads and bridges	1,137,669	1,137,669	280,089	857,580
Capital outlay	1,804,051	1,804,051	447,426	1,356,625
Total expenditures	<u>2,941,720</u>	<u>2,941,720</u>	<u>727,515</u>	<u>2,214,205</u>
Net change in fund balances	<u>\$ (2,076,720)</u>	<u>\$ (2,076,720)</u>	205,120	<u>\$ 2,281,840</u>
Fund balances, January 1, cash basis			<u>2,873,641</u>	
Fund balance, December 31, cash basis			<u>3,078,761</u>	
Differences from modified accrual basis:				
Due from other governments			607	
Accounts payable			(13,911)	
Payroll related accruals			(2,709)	
Due to other funds			(119)	
Fund balances at December 31, modified accrual basis			<u>\$3,062,629</u>	

County of Lancaster, Pennsylvania
 Combining Statement of Changes in Assets and Liabilities -
 Agency Funds

For the Year Ended December 31, 2005

	Balance, January 1, 2005	Additions	Deletions	Balance, December 31, 2005
ASSETS				
Cash and temporary investments - operating	\$ 8,513,139	\$ 144,501,584	\$ 143,591,877	\$ 9,422,846
Total assets	\$ 8,513,139	\$ 144,501,584	\$ 143,591,877	\$ 9,422,846
LIABILITIES				
Liabilities:				
Deposits and advances:				
Bail and advanced costs	416,080	1,100,958	1,144,298	372,740
Civil debt held	169	128,507	128,676	-
Sheriff's office	1,093,143	15,608,110	15,608,524	1,092,729
All others	16,783	11,878	14,208	14,453
Total deposits and advances	1,526,175	16,849,453	16,895,706	1,479,922
Escrow liability:				
Bail escrow	459,058	835,785	1,014,770	280,073
Child support	9,453	1,378,544	1,378,467	9,530
County prison	680,908	3,239,929	3,319,125	601,712
Court, restitution	439,301	5,016,312	3,846,734	1,608,879
All others	462,165	151,752	63,258	550,659
Total escrow	2,050,885	10,622,322	9,622,354	3,050,853
Other:				
All others	991,232	7,598,787	7,487,835	1,102,184
Total other	991,232	7,598,787	7,487,835	1,102,184
Due to other governments:				
Fines and costs	3,767,465	108,267,389	108,322,616	3,712,238
All others	177,382	1,171,052	1,270,785	77,649
Total due to other governments	3,944,847	109,438,441	109,593,401	3,789,887
Total liabilities	\$ 8,513,139	\$ 144,509,003	\$ 143,599,296	\$ 9,422,846

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STATISTICAL SECTION

County of Lancaster, Pennsylvania
General Governmental Expenditures by Function (1)
Last Ten Years

Table 1

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Expenditures:										
General Government	\$17,399,700	\$17,985,934	\$20,373,098	\$21,518,898	\$25,892,228	\$41,587,893	\$39,542,400	\$38,000,997	\$33,486,730	\$45,348,382
Public Safety	4,357,884	4,534,442	5,282,574	5,206,259	5,971,456	6,241,998	254,174	647,582	769,267	1,100,204 (3)
Roads and Bridges	708,795	817,071	182,156	560,989		433,594	205,939	520,417	486,841	
Health, Education and Welfare:										
Drug and Alcohol	2,268,085	3,433,610	3,852,528	3,839,594	4,086,542	4,607,956	3,537,426	4,887,973	6,017,438	5,145,200
Employment and Training	2,487,666	2,769,098	2,540,502	2,426,380	1,637,120	2,207,559	2,937,888	3,034,645	3,122,382	3,463,807
Mental Health/Mental Retardator	22,499,247	23,417,171	29,056,207	26,077,370	34,639,492	40,350,436	45,841,258	51,342,153	51,716,537	59,222,803
Office of Aging	5,657,918	5,895,116	6,092,531	5,968,260	7,136,854	7,172,111	6,713,640	7,704,959	7,607,868	7,917,165
Children and Youth	18,698,602	20,181,168	23,066,567	27,331,900	30,258,567	33,759,131	36,920,636	39,021,718	40,669,408	40,742,048
Other	3,414,825	3,195,668	529,528	595,725	661,207	713,296	832,977	655,866	1,035,332	736,416
Judicial	19,408,228	21,537,418	22,368,920	23,284,151	24,527,754	26,919,414	28,803,044	29,933,955	32,874,042	34,996,763
Corrections	9,980,618	10,747,628	11,449,924	11,721,068	12,567,146	13,082,682	14,041,578	14,118,091	15,459,198	16,640,060
Culture and Recreation	1,546,124	1,685,611	1,737,960	1,881,487	2,016,937	2,263,339	2,117,355	2,112,098	2,702,712	2,486,594
Community Development	3,936,044	5,026,948	6,407,530	3,965,971	5,133,874	4,561,550	4,836,576	5,210,433	5,712,858	5,836,418
Depreciation in Fair Value of Investment				210,073						
Capital Outlay	4,904,228	2,214,934	4,320,602	6,535,965	22,364,398	16,934,114	9,955,828	17,264,521	4,361,693	12,958,118
Capital Lease			1,371,168							
Debt Service (2)										
Principal Retirement	3,205,000	3,220,000	4,530,000	4,360,000	4,810,000	4,495,000	1,920,000	4,745,000	5,855,000	7,575,944
Interest and Fiscal Charges	2,149,283	2,435,404	2,119,684	1,875,940	3,198,788	4,114,619	2,700,128	4,505,001	5,154,688	6,663,917
Bond Issuance Costs							288,909	684,877	460,268	352,037
Total Expenditures	\$122,622,247	\$129,097,212	\$145,281,474	\$147,360,028	\$184,902,358	\$209,444,692	\$201,449,758	\$224,390,288	\$217,492,262	\$251,185,878

- (1) Amounts include all governmental fund types
- (2) Amounts do not include debt service payments for bond issues refunded pursuant to advance refunding
- (3) 911 Operations became an enterprise fund in 2001.

County of Lancaster, Pennsylvania
General Governmental Revenues by Source (1)
Last Ten Years

Table 2

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenues:										
Real Estate Taxes	\$36,653,736	\$41,268,634	\$53,380,671	\$54,257,481	\$56,347,904	\$57,902,496	\$60,952,887	\$67,106,816	\$75,693,294	\$83,776,893
Personal Property Taxes			38,544	8,110						
Intergovernmental	59,221,424	64,891,091	72,619,983	69,668,080	84,176,629	92,023,376	101,367,081	109,987,669	116,312,634	123,015,786
Departmental	10,955,572	10,925,017	11,894,457	13,043,400	12,844,848	13,865,686	15,494,862	14,186,879	13,767,339	14,367,287
Fines and Costs	2,471,293	2,569,576	2,745,813	2,961,714	3,121,137	3,957,438	3,532,836	3,610,638	3,423,118	2,727,025
Interest	2,609,775	1,535,983	3,031,788	1,966,978	4,885,056	3,622,738	1,755,276	1,328,286	1,335,201	2,619,881
Other	396,521	418,961	328,169	1,616,854	802,947	697,691	932,256	581,403	674,277	962,363
Health Choices							72,421	168,922	734,008	793,991
Total Revenues	\$112,308,321	\$121,609,657	\$144,039,425	\$143,522,617	\$162,178,521	\$172,069,425	\$184,108,174	\$196,970,613	\$211,939,871	\$228,263,226

(1) Amounts include all governmental fund types.

County of Lancaster, Pennsylvania
Property Tax Levies and Collections
Last Ten Years

Table 3

Year	Total Tax Levy (1)	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections (2)	Ratio of Total		Ratio of	
						Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Delinquent Taxes to Total Tax Levy	
1996	\$ 36,892,678	\$ 35,136,945	95.24%	\$ 1,444,628	\$ 36,581,573	99.16%	\$ 1,366,560	3.70%	
1997	42,146,876	39,882,529	94.63%	1,291,192	41,173,721	97.69%	1,798,106	4.27%	
1998	54,955,971	51,723,264	94.12%	1,478,664	53,201,928	96.81%	1,974,835	3.59%	
1999	55,167,820	52,320,144	94.84%	1,996,662	54,316,806	98.46%	1,075,483	1.95%	
2000	56,401,307	55,125,390	97.74%	1,176,172	56,301,562	99.82%	618,847	1.10%	
2001	59,742,551	56,713,662	94.93%	1,195,523	57,909,185	96.93%	825,459	1.38%	
2002	60,580,539	59,551,180	98.30%	1,657,148	61,208,328	101.04%	858,099	1.42%	
2003	66,544,976	65,227,229	98.02%	1,472,215	66,699,444	100.23%	787,401	1.18%	
2004	76,404,957	74,129,754	97.02%	1,549,926	75,679,680	99.05%	563,158	0.74%	
2005	83,612,635	82,200,782	98.31%	1,509,305	83,710,087	100.12%	635,982	0.76%	

(1) On 5/22/96, the Board of Commissioners repealed the personal property tax effective January 1, 1996. Real estate tax levy is not adjusted by exonerations.

(2) Total tax collections include penalties and interest.

County of Lancaster, Pennsylvania
Assessed and Estimated Actual Value of Taxable Property
Last Ten Years

Table 4

Year	Assessed Value	Estimated Actual Value (1)	Millage Rate	Estimated Actual Value to Assessed Value	Total Assessed Value
1996	\$ 3,804,594,810	\$ 3,353,879,840	11.000	88%	\$ 3,804,594,810
1997	24,001,100,700	21,340,190,400	1.975	89%	24,001,100,700
1998	24,470,843,500	21,678,884,200	2.535	89%	24,470,843,500
1999	22,561,137,200	20,674,588,900	2.515	92%	22,561,137,200
2000	25,267,114,100	22,863,582,100	2.515	90%	25,267,114,100
2001	25,773,667,700	23,287,615,500	2.613	90%	25,773,667,700
2002	25,908,504,500	23,373,714,300	2.613	90%	25,908,504,500
2003	26,407,814,800	23,863,507,500	2.847	90%	26,407,814,800
2004	31,214,117,500	28,249,202,000	3.205	91%	31,214,117,500
2005	32,157,858,100	29,106,359,700	2.962	91%	32,157,858,100

(1) 1996 estimated actual value is based on a market value appraisal made in 1960 by the Lancaster County Assessment Board which is updated as additions and new construction occur. In 1997 and 2005, county-wide reassessments were implemented.

County of Lancaster, Pennsylvania
Property Tax Rates
Direct and Overlapping Governments (1)
Last Ten Years
(In Mills)

Table 5

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
City:										
Lancaster	\$144.1	\$24.505	\$25.515	\$26.455	\$26.455	\$26.5530	\$28.6730	\$29.5570	\$29.9150	\$30.0120
Borough:										
Adamstown	100	16.265	17.825	18.555	18.555	19.1530	20.1530	20.3870	20.7450	21.3820
Akron	85.5	14.569	16.225	16.205	17.205	18.3030	19.9530	20.1870	22.1450	19.9770
Christiana	115	16.625	17.945	19.485	21.075	21.9830	25.4630	27.1470	27.6250	26.9010
Columbia	115.5	18.601	22.161	23.091	23.675	23.7730	24.2730	27.9970	29.3550	27.4920
Denver	101.25	16.585	18.145	18.375	18.375	18.7230	19.7230	20.1370	21.0650	21.5670
East Petersburg	84.85	15.37	16.477	16.457	17.757	18.4050	19.2250	19.9590	20.9500	19.6530
Elizabethtown	87.5	14.72	16.105	17.265	17.265	18.2130	18.7130	18.9470	20.1050	18.1760
Ephrata	89.5	15.082	16.162	16.142	17.142	18.2400	19.8900	20.1240	22.0820	19.9960
Lititz	97.9	16.2	16.76	16.74	16.74	16.8380	18.7130	20.4470	22.4050	19.5220
Manheim	104.6	17.375	18.505	18.815	19.385	19.9830	20.7330	20.9670	22.0450	19.8720
Marietta	108.5	16.275	17.135	17.975	18.205	19.5230	20.2230	20.8770	22.6050	20.5720
Millersville	105.4	17.363	18.873	19.493	19.635	19.7330	20.2830	20.5170	22.3750	21.3620
Mount Joy	99.5	15.775	16.385	16.725	17.105	18.5230	19.2230	19.9770	20.7050	19.1720
Mountville	84.85	15.315	15.875	15.855	16.355	17.0030	18.0530	18.7870	19.5450	18.2510
New Holland	92.55	14.815	15.375	15.355	15.355	15.6230	15.6230	16.9970	17.3550	15.9720
Quarryville	73	11.155	11.715	11.995	11.995	12.4130	13.7630	13.9970	14.7050	13.9595
Strasburg	90	15.455	16.835	17.005	17.465	18.1130	19.6530	20.4870	21.8450	19.7720
Terre Hill	96.3	15.325	16.345	16.325	16.825	16.9230	16.9230	17.7970	19.5550	17.2220
Townships:										
Bart	70	10.425	10.915	10.895	10.845	17.5130	17.8630	11.7970	12.5050	11.8095
Brecknock	84.8	13.485	14.345	14.325	14.325	14.4230	14.4230	15.3303	15.6883	14.2910
Caernarvon	86.3	13.685	14.245	14.225	14.225	14.3230	14.3230	15.1970	15.5550	14.1720
Clay	83.5	14.13	15.2098	15.1898	16.1898	17.2878	18.9378	19.1718	21.1298	19.0140
Colerain	66	9.955	10.515	10.495	10.495	11.1130	11.4630	11.6970	12.4050	11.7665
Conestoga	90.4	15.002	16.512	17.132	17.442	17.5400	18.0900	18.3240	18.6820	17.7250
Conoy	72.5	12.12	13.505	14.665	14.665	15.1130	15.6130	15.8470	16.7050	15.0960
Drumore	63	9.555	10.115	10.095	10.095	10.5130	11.0630	11.2970	12.0050	12.2095

(Continued)

County of Lancaster, Pennsylvania
Property Tax Rates
Direct and Overlapping Governments (1)
Last Ten Years
(In Mills)

Table 5 (Cont.)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Earl	\$88.3	\$14,125	\$15,045	\$15,025	\$15,025	\$15,1230	\$15,1230	\$15,9970	\$16,3550	\$15,0220
East Cocalico	96.75	15.835	17.395	17.675	17.625	18.2230	19.2230	19.4570	20.0650	20.7570
East Donegal	92	14.868	15.535	15.875	16.105	17.5230	18.2230	19.1270	20.3550	18.7190
East Drumore	65.5	9.955	10.515	10.495	10.495	10.9130	11.2630	11.4970	12.2050	11.5995
East Earl	87.8	13.975	14.535	14.565	14.825	14.9230	14.9230	15.7970	16.3550	14.9020
East Hempfield	84.85	15.495	16.155	16.135	16.635	17.2830	18.1030	18.8370	19.4950	18.1410
East Lampeter	78.25	13.705	14.515	14.625	14.755	14.8530	15.2530	16.2570	17.0150	15.2940
Eden	67	10.155	10.815	10.165	10.165	10.5830	10.9330	11.1670	11.8750	11.8095
Elizabeth	90.9	15.075	15.635	15.615	15.615	15.7130	17.2130	18.9470	20.9050	18.1620
Ephrata	87	14.705	15.845	16.055	17.055	18.1530	19.8030	20.0370	21.9950	19.7620
Fulton	65	9.775	10.335	10.315	10.315	10.7330	11.0830	11.3170	12.0250	11.4195
Lancaster	111.7	19.025	20.035	20.015	20.015	20.1130	21.4830	21.7170	22.3750	22.9420
Leacock	86.75	13.586	14.535	15.215	15.415	15.9130	17.0130	17.8470	18.7050	16.5920
Little Britain	66	9.975	10.535	10.515	10.515	10.9330	11.2830	11.5170	12.2250	11.5995
Manheim	91.7	16.245	16.785	16.765	17.165	17.7530	18.7430	19.9270	21.0250	18.9620
Manor	89.4	15.045	16.555	17.225	17.535	17.6330	18.1830	18.4170	18.7750	17.8120
Martic	84.4	14.195	15.705	16.325	16.635	16.7330	17.2830	17.5170	17.8750	17.0320
Mount Joy Part(2)	93	14.675	14.105	15.375	15.855	17.1480	18.1730	18.8270	19.5550	17.7920
Mount Joy Part(3)	78.5	12.82	15.135	15.165	15.415	16.2380	17.0630	17.2970	18.1550	16.3160
Paradise	90.75	14.125	14.985	15.665	15.865	16.9130	18.0130	18.8470	19.7050	17.4820
Penn	94.1	15.875	17.005	17.565	18.135	18.2330	18.9830	19.2170	20.2950	18.3320
Pequea	91.9	15.319	16.82865	17.4487	17.7587	17.8566	18.8930	19.2170	19.5750	18.5820
Providence	64.5	9.775	10.335	10.315	10.315	10.7330	11.0830	11.3170	12.0250	11.4025
Rapho	91.1	15.375	16.505	16.815	17.385	17.4830	18.2330	18.4670	19.2950	17.5220
Sadsbury	108	15.825	17.145	17.735	19.325	20.2330	22.2130	23.8970	24.4750	23.8820
Salisbury	86.25	13.505	14.265	14.945	15.145	15.6430	16.7430	17.5770	18.4350	16.3420
Strasburg	83	14.255	15.635	15.805	16.065	16.5130	18.1530	18.9870	20.2450	18.4820
Upper Leacock	77.25	13.575	14.485	14.665	14.925	15.2230	15.7330	16.6170	17.5650	15.7720
Warwick	92.9	15.405	15.9654	15.9454	15.9454	16.0434	17.5434	19.2774	21.2354	18.4360
West Cocalico	94.75	15.335	16.895	17.125	17.625	18.4730	19.4730	19.7070	20.1650	20.8150
West Donegal	80.5	13.62	15.005	16.165	16.165	16.6130	17.1130	17.3470	18.2050	16.4463
West Earl	75.25	13.24	14.185	14.295	14.925	15.0230	15.4230	16.3070	17.0650	15.8620
West Hempfield	80.35	14.595	15.155	15.135	15.635	16.2830	17.1030	17.8370	18.4950	17.3010
West Lampeter	82.25	14.19	15.47	15.6988	16.1057	16.5537	18.3530	19.1870	20.4450	18.6410

(1) Includes millage for municipal, school, and county real estate tax per \$1,000 of assessed value. In 1997 and 2005, county wide reassessments were implemented.

(2) Applicable to the portion of Mount Joy situated in the Donegal School District.

(3) Applicable to the portion of Mount Joy situated in the Elizabethtown School District.

County of Lancaster, Pennsylvania
Principal Taxpayers
December 31, 2005

Table 6

Taxpayer	Type of Business	Assessed Value	Percentage of Total Assessed Valuation
High Properties	Construction/Real Estate	\$ 198,997,200	15.98%
Spitzer M James Etal Et Al (Park City)	Retailing	143,657,700	11.54%
Willow Valley Retirement	Retirement Community	98,314,800	7.90%
Lancaster General Hospital	Medical Services	90,113,300	7.24%
Willow Valley Manor	Retirement Community	84,499,100	6.79%
Dart Container Corp of PA	Manufacturing	61,635,300	4.95%
Rockvale Group	Retailing	58,186,700	4.67%
Granite Properties	Retailing	57,559,600	4.62%
Exelon Generation Co LLC	Electric Utility	54,429,800	4.37%
Armstrong Cork Co	Manufacturing	53,568,400	4.30%
American Stores Properties Inc	Warehousing	50,996,100	4.10%
Garden Spot Village Inc	Retirement Community	48,558,500	3.90%
Mennonite Home Inc	Retirement Community	37,251,900	2.99%
New Holland North America Inc	Manufacturing	35,516,500	2.85%
Masonic Homes	Retirement Community	34,888,700	2.80%
Luthercare	Retirement Community	30,427,900	2.44%
Willow Valley Assoc Inc	Retirement Community	27,805,200	2.23%
Lancaster HMA Inc Et Al (Heart of Lancaster)	Medical Services	26,937,800	2.16%
Brethern Home Inc	Retirement Community	26,003,300	2.09%
Warner-Lambert Co	Manufacturing	25,647,900	2.06%
	Total	\$ 1,244,995,700	100.00%

County of Lancaster, Pennsylvania
 Computation of Legal Debt Margin
 December 31, 2005

Table 7

Borrowing base revenues (1):	
2003	\$ 126,410,082
2004	131,266,881
2005	129,499,678
	<u>\$ 387,176,641</u>
Total Revenue	
Net Nonelectoral Debt Limit:	
Average borrowing base revenues	\$ 129,058,880
Debt limit percentage	300%
Net Nonelectoral Debt Limit	<u>387,176,641</u>
Total amount of debt applicable to debt limit	192,883,456
Total Remaining Nonelectoral Debt Capacity	<u>\$ 194,293,185</u>
Combined Net Nonelectoral Debt and Net Lease Rental Debt Limit	
Average borrowing base revenues	\$ 129,058,880
Debt limit percentage	400%
Combined Net Nonelectoral Debt and Net Lease Rental Debt Limit	<u>516,235,520</u>
Less: Non-electoral Debt and Lease Rental Debt	<u>193,802,456</u>
Remaining Nonelectoral Debt and Lease Rental Debt Capacity	<u>\$ 322,433,064</u>

(1) Borrowing base revenues represents total revenues less governmental grants received for a specific purpose.

County of Lancaster, Pennsylvania
 Ratio of General Obligation Bonded Debt to Assessed Value
 and General Obligation Bonded Debt Per Capita
 Last Ten Years

Table 8

Year	Population (1)	Assessed Value (2)	Bonded Debt (3)	Ratio of	
				Bonded Debt to Assessed Value	Bonded Debt Per Capita
1996	450,834	\$ 3,804,595	\$ 54,140,817	142.30%	\$ 120.09
1997	454,063	24,001,101	53,012,751	22.09%	116.75
1998	456,414	24,470,844	49,241,731	20.12%	107.89
1999	460,035	22,561,137	45,745,234	20.28%	99.44
2000	470,658	25,267,114	98,605,913	39.03%	209.51
2001	474,601	25,773,668	122,326,369	47.46%	257.75
2002	478,561	25,908,505	130,257,581	50.28%	272.19
2003	482,775	26,407,815	152,899,075	57.90%	316.71
2004	487,332	31,214,118	175,662,072	56.28%	360.46
2005	490,562	32,157,858	193,802,456	60.27%	395.06

(1) Population Sources: 1996 Estimated by Lancaster County Planning Commission; 1997 - 2005 Estimated by U.S. Census Bureau.

(2) From Table 4 (amounts expressed in thousands).

(3) Excludes issues refunded pursuant to advance refundings.

County of Lancaster, Pennsylvania
 Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt
 to Total General Governmental Expenditures (1)
 Last Ten Years

Table 9

Year	Principal (2)	Interest and Fiscal Charges	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1996	\$ 3,205,000	\$ 2,149,283	\$ 5,354,283	\$ 122,622,247	4.37%
1997	3,220,000	2,435,404	5,655,404	129,097,212	4.38%
1998	4,530,000	2,119,684	6,649,684	145,281,474	4.58%
1999	4,360,000	1,875,940	6,235,940	147,360,028	4.23%
2000	4,810,000	3,198,789	8,008,789	184,902,358	4.33%
2001	4,495,000	4,114,619	8,609,619	209,444,692	4.11%
2002	1,920,000	2,700,128	4,620,128	201,449,758	2.29%
2003	4,745,000	4,505,001	9,250,001	224,390,286	4.12%
2004	5,855,000	5,154,688	11,009,688	217,492,262	5.06%
2005	7,575,944	6,633,917	14,209,861	251,185,875	5.66%

(1) Includes general, special revenue, and capital projects funds.

(2) Excludes expenditures for payments of tax revenue anticipation notes.

County of Lancaster
 Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 December 31, 2005

Table 10

Jurisdiction:	(1) Net General Obligation Bonded Debt and/or Revenue Bonds Outstanding
County of Lancaster	\$ 193,802,456
Overlapping:	
City of Lancaster	66,070,393
School Districts:	
Cocalico	47,476,671
Columbia Borough	19,197,543
Conestoga Valley	59,754,007
Donegal	21,657,428
Eastern Lancaster County	17,610,802
Elizabethtown Area	22,320,000
Ephrata Area	76,195,000
Hempfield	80,453,415
Lampeter-Strasburg	46,249,987
Lancaster	67,358,588
Lancaster County Vo-Tech School	8,610,000
Manheim Central	12,901,230
Manheim Township	95,331,931
Octorara	22,375,000
Penn Manor	41,926,605
Pequea Valley	27,014,333
Solanco	21,520,200
Warwick	81,155,000
Total School Districts	\$ 769,107,740
Municipal Authorities:	
Adamstown Borough Authority	\$ 1,096,583
Akron Borough Authority	528,025
Bainbridge Water	-
Blue Ball Water Authority	-
Christiana Borough	684,600
Columbia Municipal	1,400,307
Denver Borough	225,426
Earl Township Sewer Authority	2,750,000
East Cocalico Water And Sewer	4,950,000
East Donegal Township Sewer	-
East Donegal Township Water	1,444,050
East Earl Sewer Authority	1,290,000
East Hempfield Municipal Authority	-
East Lampeter Township Sewer	11,630,000
Elizabethtown Regional Area Authority	-
Ephrata Area Joint Authority	4,325,000
Ephrata Borough	19,230,000
Ephrata Township Sewer Authority	-

(Continued)

County of Lancaster
 Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 December 31, 2005

Table 10 (Cont.)

Jurisdiction:	(1) Net General Obligation Bonded Debt and/or Revenue Bonds Outstanding
Georgetown Area Sewer Authority	\$ 467,918
Lancaster Airport	67,667
Lancaster Area Sewer	85,050,000
Lancaster County Hospital Authority	Not Available
Lancaster County Solid Waste Management Auth	110,990,643
Lancaster Downtown Investment District Authority	-
Lancaster Higher Education Authority	Not Available
Lancaster-Lebanon Joint Authority	2,850,101
Lancaster Municipal Authority	-
Lancaster Parking	Not Available
Leacock Township Sewer Authority	2,719,376
Leola Sewer	1,540,236
Lititz Sewer	184,026
Manheim Borough	12,406,177
Manheim Township	Not Available
Marietta Borough Authority	-
Marietta-Donegal Joint Authority	Not Available
Mount Joy Borough	17,558,629
Mount Joy Township Authority	11,028,294
Mountville Borough Water Authority	135,000
New Holland Borough	2,193,607
Northern Lancaster County	66,613
Northwestern Lancaster County Water and Sewer	12,113,380
Paradise Township Sewer Authority	1,552,759
Quarryville Borough Sewer Authority	-
Redevelopment Authority	981,964
Red Rose Transit Authority	-
Sadsbury Township Sewer Authority	1,601,386
Suburban Lancaster Sewer	19,310,000
Warwick Township Municipal	10,220,000
West Cocalico Township Authority	1,631,781
West Donegal Township Sewer & Water	6,082,930
West Earl Sewer Authority	6,985,000
West Earl Water Authority	1,425,191
Western Heights Water Authority	-
Total Municipalities	\$ 358,716,669
Total Overlapping Debt	\$ 1,193,894,802
Total direct and overlapping debt	\$ 1,387,697,258

(1) The debt of the city and school districts is tax based, and the majority of the municipal authorities are self-supporting.

County of Lancaster, Pennsylvania
Demographic Statistics
Last Ten Years

Table 11

Year	(1) Population	(2) Per Capita Personal Income	(3) School Enrollment	(4) Unemployment Rate
1996	450,834	\$ 24,138	82,754	3.3%
1997	454,063	25,057	84,132	3.0%
1998	456,414	26,053	84,985	2.9%
1999	460,035	26,889	85,647	2.6%
2000	470,658	27,309	85,569	2.7%
2001	474,601	28,195	85,571	3.2%
2002	478,561	28,863	85,836	3.8%
2003	482,775	28,863	86,364	4.0%
2004	487,332	29,654	85,996	3.8%
2005	490,562	Not Available	86,471	3.6%

Data Sources:

- (1) Population Sources: 1996 Estimated by Lancaster County Planning Commission
1997 - 2005 Estimated by U.S. Census Bureau
- (2) Per Capita Personal Income Sources: 1996 Lancaster, PA Office of Employment Security
1997 - 1998 Estimated by Lancaster County Controller's Office
1999 - 2004 Estimated by U.S. Department of Commerce, Bureau of Economic Analysis
- (3) School Enrollment Source: Pennsylvania Department of Education
- (4) Unemployment Rate Sources: 1996 - 1998 PA Department of Labor and Industry, Office of Employment Security
1999 - 2005 U.S. Department of Labor, Bureau of Labor Statistics

County of Lancaster, Pennsylvania
Demographic Statistics (continued)
Last Ten Years

Table 11 (Cont.)

Population Count and Age Distribution (1):

Census Year	Under 5	5-9	10-14	15-19	20-24	25-44	45-64	Over 65	Total Population
1940	17,188	17,587	18,727	19,525	18,016	60,462	42,135	18,864	212,504
1950	24,639	20,110	17,180	17,170	18,283	67,633	47,096	22,605	234,716
1960	31,338	28,457	25,147	21,003	16,916	72,159	55,220	28,119	278,359
1970	27,180	31,646	32,768	30,232	24,474	75,416	64,935	33,428	320,079
1980	26,950	27,048	28,783	34,324	33,935	97,793	71,175	42,338	362,346
1990	33,462	31,739	29,844	30,590	31,305	132,351	78,062	55,469	422,822
2000	32,680	35,939	36,290	34,329	29,246	133,185	102,929	66,060	470,658

Population Distribution by Gender - 2000 Census Year (1):

	"Male"		"Female"	
	Number	Percentage	Number	Percentage
Under 5 years	16,808	7.33%	15,872	6.58%
5-9 years	18,496	8.06%	17,443	7.23%
10-14 years	18,523	8.07%	17,767	7.37%
15-19 years	17,501	7.63%	16,828	6.98%
20-24 years	14,488	6.31%	14,758	6.12%
25-34 years	29,308	12.77%	29,785	12.35%
35-44 years	36,643	15.97%	37,449	15.53%
45-54 years	30,747	13.40%	31,613	13.11%
55-59 years	10,909	4.75%	11,516	4.77%
60-64 years	8,709	3.80%	9,435	3.91%
65-74 years	14,893	6.49%	17,813	7.39%
75 years and older	12,429	5.42%	20,925	8.68%
	<u>229,454</u>	<u>100.00%</u>	<u>241,204</u>	<u>100.00%</u>

(1) U.S. Census Bureau

County of Lancaster, Pennsylvania
Property Value, Construction, and Bank Deposits
Last Ten Years

Table 12

Year	Property Value (1)		Construction and Additions (2)		Bank Deposits (3)
	Taxable	Nontaxable	Number of Units	Value	
1996	\$ 3,353,879,840	\$ 450,714,970	2,884	\$ 50,098,080	\$ 3,578,495,000
1997	21,340,190,400	2,660,910,300	4,722	467,926,900	5,237,152,000
1998	21,678,884,200	2,791,959,300	3,849	451,570,900	4,929,358,000
1999	20,674,588,900	1,886,548,300	3,504	434,999,300	5,434,834,000
2000	22,863,582,100	2,403,532,000	3,719	500,085,500	Not Available
2001	23,287,615,500	2,486,052,200	3,812	429,127,100	Not Available
2002	23,373,714,300	2,534,790,200	3,448	367,205,000	Not Available
2003	23,863,507,500	2,544,307,300	3,833	467,475,900	Not Available
2004	28,249,202,000	2,964,915,500	805	207,394,100	Not Available
2005	29,106,359,700	3,051,498,400	4,771	812,186,700	Not Available

(1) Total appraised valuations and nontaxable appraised valuations were provided by the County Assessor's Office. The 1996 property values are based on a 1960 market appraisal which is updated for additions and new construction. In 1997 and 2005, county wide reassessments were implemented. Taxable property value is from Table 4, Estimated Actual Value.

(2) Amounts are based on interim appraisals for new construction and additions, which are added to the following year's real estate tax rolls.

(3) Bank deposits include deposits for commercial banks, savings and loan associations, and credit unions. This information was compiled by Sheshunoff Info. Services, Inc., Austin, TX.

County of Lancaster, Pennsylvania
Salaries and Surety Bonds of Principal Officials
For the year ended December 31, 2005

Table 13

<u>Name and Title of Official</u>	<u>Annual Salary</u>	<u>Amount of Surety Bond</u>
Richard M. Shellenberger, Commissioner	\$ 81,617	7,500
Howard "Pete" Shaub, Commissioner	80,617	7,500
Molly S. Henderson, Commissioner	80,617	7,500
Dale R. Denlinger, Clerk of Courts	70,170	11,000
Dennis P. Stuckey, Controller	70,170	100,000
Dr. Gary G. Kirchner, Coroner	70,170	15,000
Donald R. Elliott, Chief Administrative Office	119,534	7,500
Vacant, Chief Services Officer		7,500
Andrea McCue, Chief Clerk	63,045	7,500
Donald R. Totaro, District Attorney	135,293	(1)
Judith Saylor, Jury Commissioner	6,715	(1)
Linda Schwanger, Jury Commissioner	6,715	(1)
Randall O. Wenger, Prothonotary	70,170	200,000
Stephen J. McDonald, Recorder of Deeds	70,170	385,000
Donna S. Reinaker, Register of Wills	72,170	25,000
Terry Bergman, Sheriff	70,170	60,000
Craig A. Ebersole, Treasurer	70,170	627,000
33 bonded tax collectors	\$.75 per parcel collected	41,381,999 (2)

(1) No bond required under Title 16, Section 420 of the County Code

(2) The dollar value is stated at 75% of total county, school and municipal tax levied in 2002.
Bonds are valid for the tax collector's term, 2002-2006.

County of Lancaster
Miscellaneous Statistics
December 31, 2005

Table 14

Date of Incorporation	May 10, 1729
Form of Government	Elected Board of Commissioners
Number of employees (excluding police and fire):	
Full-time	1,632
Part-time	480
Area in square miles	984 miles
Land	949 miles
Water	35 miles
County of Lancaster, facilities and services:	
Miles of streets:	
Federal	18 miles
State	1,090.9 miles
Local (municipal)	2,722.1 miles
Number of street lights	23,817
Number of traffic lights	444
Cultural and recreation:	
Community centers	4
Golf courses	19
Parks land acreage:	
County Parks	2,028 acres
State Parks	250 acres
State Game Lands	9,227 acres
Middle Creek Wildlife Management Area	1,709 acres
Fish Commission lands	305 acres
Rails to Trails	8.5 miles
Fire protection:	
Number of stations	80
Volunteer Fire Fighters	3,200
Career Fire Fighters	85
Police protection:	
Number of stations	33
Number of police personnel and officers	747
Number of patrol units	262
Emergency Medical Services:	
Number of units	24
Volunteer Personnel	400
Career Personnel	400
Facilities and services not included in reporting entity	
Education (Public):	
Number of elementary schools	81
Number of elementary school instructors	1,724
Number of secondary schools	25
Number of secondary school instructors	1,759
Number of combined schools, both secondary and elementary	19
Number of combined school instructors, both secondary and elementary	445
Number of special education instructors	825
Number of colleges and universities	3
Hospitals:	
Number of hospitals	5
Number of patient beds	1,124
Agriculture:	
Number of farms	5,293
Farm acreage	411,848
Libraries (public)	13
Airports (commercial use)	4
Elections:	
Number of registered voters	293,329
Number of votes cast in last general election	72,708
Percentage of registered voters in last general election	24.79%

Name of Company/ Type of Coverage	Policy Number	Policy Period	Premium	Details of Coverage and Co-Insurance %	Liability Limit
St. Paul Insurance Company	GF09311966	02/01/05-02/01/06	\$ 233,555	General Liability	General Total Limit Products And Completed Work Total Limit Personal Injury Each Person Limit Advertising Injury Each Person Limit Each Event Limit Premises Damage Limit Sexual Abuse Total Limit Sexual Abuse Each Person Limit Total Limit Each Wrongful Act Limit Each Wrongful Act Total Limit Each Wrongful Act Total Limit Combined Single Limit Uninsured/Underinsured Motorists General Aggregate Each Occurrence Each Wrongful Act Total Limit
St. Paul/Travelers Insurance Company	GP09311966	02/01/05-02/01/06	Incl in GL	Skateboard Park General Liability	
Chubb Insurance Company Building and Contents	35831933PHL	02/01/05-02/01/06	\$ 226,348	Special Form: \$25,000 deductible. Locations with values in excess of \$500,000 Boiler & Machinery	\$ 181,521,811 limit \$ 60,000 limit \$ 500,000 limit \$ 181,521,811 limit
Boiler & Machinery				Flood \$50,000 Deductible Flood \$50,000 Deductible Earthquake \$50,000 deductible Earthquake \$50,000 deductible	Per Occurrence Limit Annual Aggregate Limit Per Occurrence Limit Annual Aggregate
Commercial Property Coverages				Hardware: \$1,000 deductible Software: \$1,000 deductible	\$ 2,500,000 \$ 2,500,000 \$ 15,000,000 \$ 15,000,000
Computers				Fine Arts Floater; \$1,000 deductible Radio & Television Broadcasters - Transmission Towers - Replacement Cost; deductible \$25,000 Special Property Floater; deductible \$500	\$ 18,418,903 Included in Hardware \$ 232,725 \$ 2,899,219 Maximum any one tower \$272,000 \$ 721,126

Note: Safety Training Facility General Liability and Umbrella included in St. Paul/Travelers Package

(Continued)

Name of Company/ Type of Coverage	Policy Number	Policy Period	Premium	Details of Coverage and Co-Insurance %	Liability Limit
SAFETY NATIONAL Excess Workers Comp & Employers Liability	SP6529PA	01/01/05-01/01/06	\$ 62,710	Excess Workers Compensation Employers Liability (\$500,000 Cap Loss Limit)	Statutory 1,000,000 \$
ENVIRONMENTAL COMPLIANCE SERVICES Pollution Liability	PEC0005845	08/22/00-06/30/09	\$ 29,601	Pollution insurance for the Training Facility location	Each Accident/Limit Each Employee Per Disease Each Accident/Limit Each Employee Per Disease
Chubb Covered Bridge Policy	6636577	02/01/05-02/01/06	\$ 34,720	Bridge Property Damage, Deductible \$25,000	Each Loss, Remediation Expense or Legal Defense Expense
HARTFORD	103269075	02/01/04-02/01/05	\$ 16,122	Public Employees Blanket Bond, Deductible \$2,500	Total Limit, Schedule Of Bridges On File With Carrier Per Loss Limit
BROTEMARKLE INS, (1): Foster Parent Liability Ins.	FPL - 121	07/01/05-06/30/06	\$ 14,940	Personal Liability Insurance for foster parents	300,000 \$ Per Person, Per Occurrence

(1) Contracted directly by Children and Youth Agency

DISCLAIMER - GENERAL

This document is for illustrative purposes. It contains generalized information and is not to be full and complete description of the actual insurance policies. You must read the policies for any specific policy provisions or details.