

June 16, 2006

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.

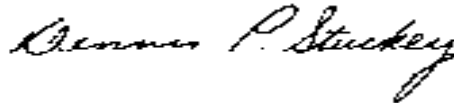
Pension and Other Postemployment Benefits. The County maintains a single-employer contributory defined benefit pension plan with mandatory membership for all full-time County employees. Participants in the Plan contribute 5 percent of their gross pay, with an option of an additional contribution of up 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, reading "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.



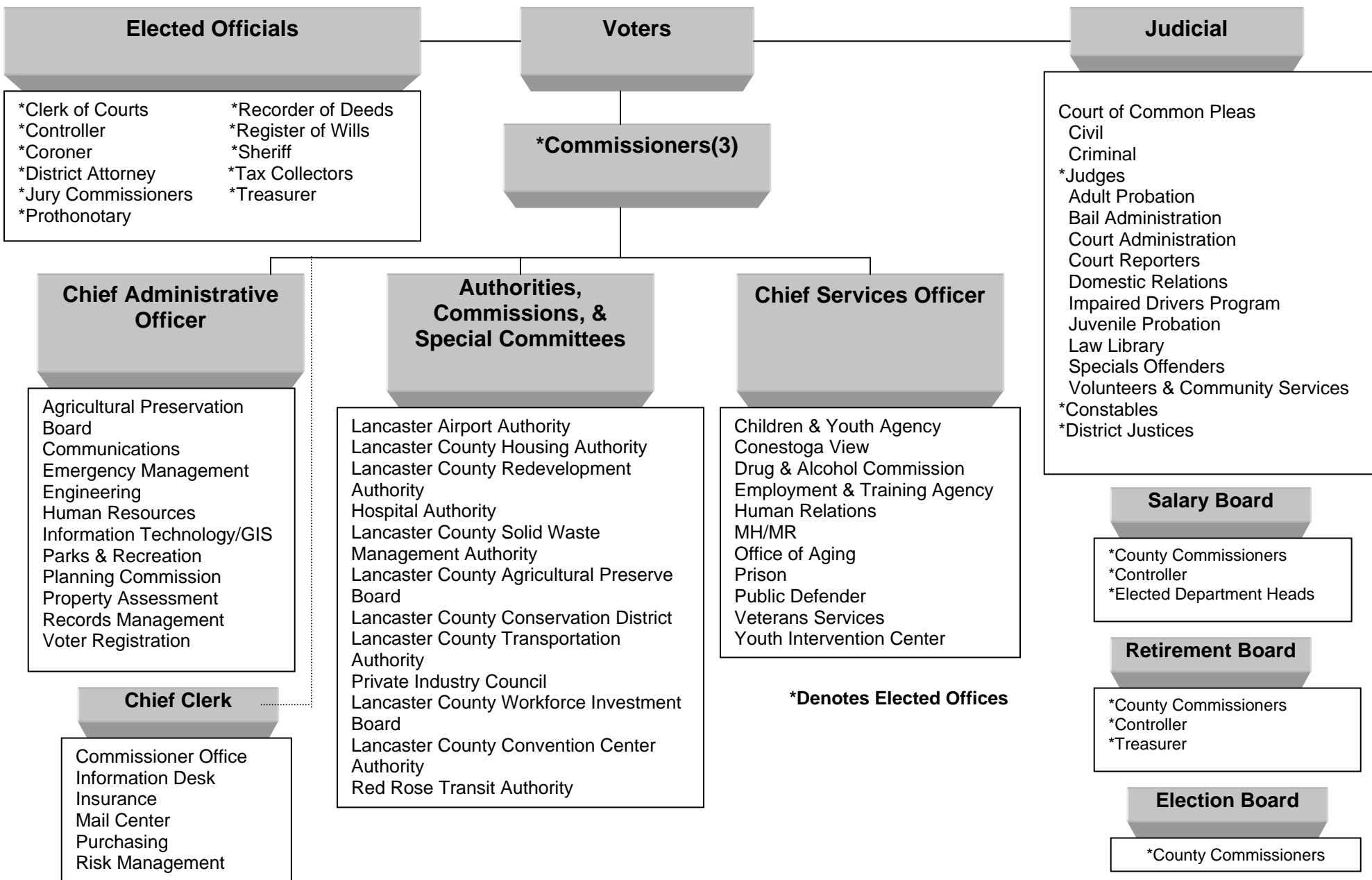
Carla E. Perry

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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