

## Report of Independent Auditors

County Commissioners  
County of Cumberland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Cumberland (the County), as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units and the Cumberland Area Economic Development Corporation, a blended component unit which represents 2% or less of the revenues/additions, net assets and total assets of the governmental activities and the aggregate remaining fund information. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

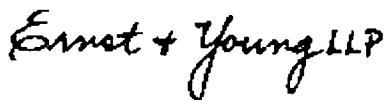
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2007, 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 20, 2008 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and Schedule of Employer's Contributions on pages 13 through 23 and 76 through 84 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is cursive and fluid, with "Ernst & Young" stacked above "LLP".

June 20, 2008

As management of Cumberland County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 thru 6 of this report.

### **Financial Highlights**

- The assets of Cumberland County exceeded its liabilities at the close of the most recent fiscal year by \$53,216,522 (*net assets*). Of this amount, \$23,620,552 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$8,206,136.
- As of the close of the current calendar year, Cumberland County's governmental funds reported combined ending fund balances of \$33,308,254, an increase of \$751,498 in comparison to the prior year. Approximately 95 percent of the total amount \$31,695,251 is *available for spending* at the County's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$20,658,804. Of this balance approximately \$3,946,981 is designated for capital projects, farmland preservation, prison canteen, open space, future debt service arbitrage payments and future expenditure of landfill post-closure trust fund monies.
- Cumberland County's total general obligation debt decreased by \$2,456,428. The major changes in debt were the refinancing of the 2001 variable rate bond issue into a fixed rate bond and scheduled principal payments.
- The County AA+ bond rating was confirmed.
- The County continued its progress in performance management to ensure strong fiscal management and promote long-term planning.
- The County preserved 1,738 acres of premium farmland in 2007. The total preserved farmland is 12,556 acres.
- Open Space's land partnership program completed 14 projects which included 900 acres of open space and critical habitat preserved, two community swimming pools restored, five park development and improvement projects, and two planning documents to include open space and smart growth techniques.
- Starting in the fall of 2007, all capable boiler fuel tanks and diesel vehicles operating in the Carlisle area utilized biofuels.
- In order to alleviate prisons concerns and implement intermediate punishments, the County began a day reporting center and treatment court that holds offenders accountable while making progress towards becoming productive citizens.
- The County began the design phase of the prison expansion project.

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 26 and 27 of this report.

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

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

Because the focus of spendable resources of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are reconciled to *governmental activities* on pages 29 and 31 of this report.

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

The basic governmental fund financial statements can be found on pages 28 and 30 of this report.

**Proprietary funds.** The County maintains two different types of proprietary funds. *Enterprise funds* report the same functions presented as *business-type activities* in the government-wide financial statements only in more detail. The County uses enterprise funds to account for the County nursing home, the Early Learning Center, emergency telephone, transportation, and the hazardous materials fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its workers' compensation fund. Because workers' compensation services principally benefit business-type functions, they have been included within *business-type activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 32 thru 35 of this report.

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

The basic fiduciary fund financial statements can be found on pages 36 and 37 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40 thru 74 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund and major special revenue funds. The County adopts annual appropriated budgets for its funds. Budgetary comparison schedules have been provided for the major governmental funds to demonstrate compliance with this budget. Required supplementary information can be found on pages 76 thru 84 of this report.

Following the *required supplementary information* the County presents other supplementary information that is not required by the Governmental Accounting Standards Board. This information consists of combining schedules to provide detail not contained in the basic financial statements and the budgetary comparison schedules for the remaining funds to demonstrate compliance with the County's budget.

### **Government-wide Financial Analysis**

Over time, net assets may serve as a useful indicator of government's financial position. In the case of Cumberland County, assets exceeded liabilities by \$53,216,522 at the close of the most recent calendar year.

**Cumberland County's Net Assets**

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Assets:</b>						
Current assets	\$ 50,994,696	49,656,430	14,533,739	12,490,247	65,528,435	62,146,677
Capital assets	33,363,566	29,327,160	20,073,329	20,972,847	53,436,895	50,300,007
Other assets	33,386	40,224	-	-	33,386	40,224
Total assets	84,391,648	79,023,814	34,607,068	33,463,094	118,998,716	112,486,908
<b>Liabilities:</b>						
Long-term liabilities outstanding	23,802,442	25,116,037	24,200,231	25,330,130	48,002,673	50,446,167
Other liabilities	15,600,766	15,513,080	2,178,755	1,517,275	17,779,521	17,030,355
Total liabilities	39,403,208	40,629,117	26,378,986	26,847,405	65,782,194	67,476,522
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	18,992,768	17,291,386	(1,495,109)	(1,304,478)	17,497,659	15,986,908
Restricted	12,011,798	15,555,829	-	-	12,011,798	15,555,829
Unrestricted	13,983,874	5,547,482	9,723,191	7,920,167	23,707,065	13,467,649
<b>Total net assets</b>	<b>\$44,988,440</b>	<b>38,394,697</b>	<b>8,228,082</b>	<b>6,615,689</b>	<b>53,216,522</b>	<b>45,010,386</b>

Thirty-three percent of Cumberland County's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. Cumberland County uses these assets to provide services to citizens; consequently, these services are *not* available for future spending. Although Cumberland County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

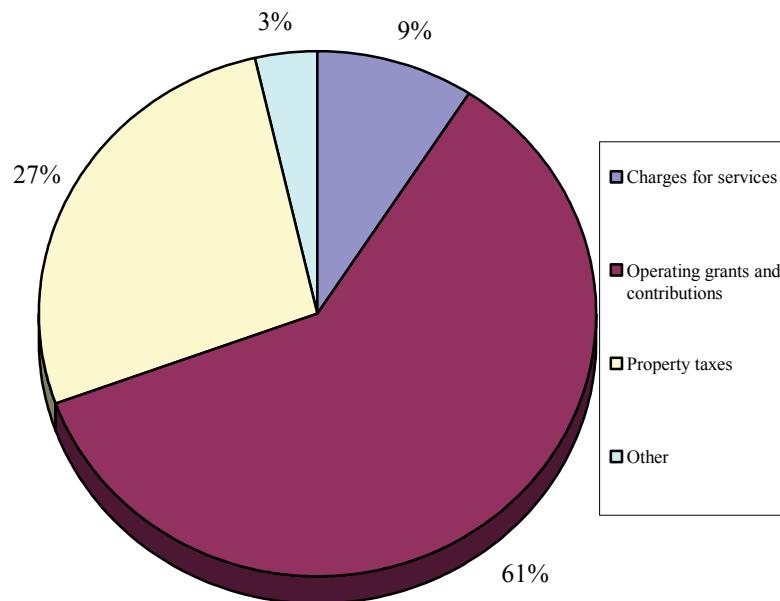
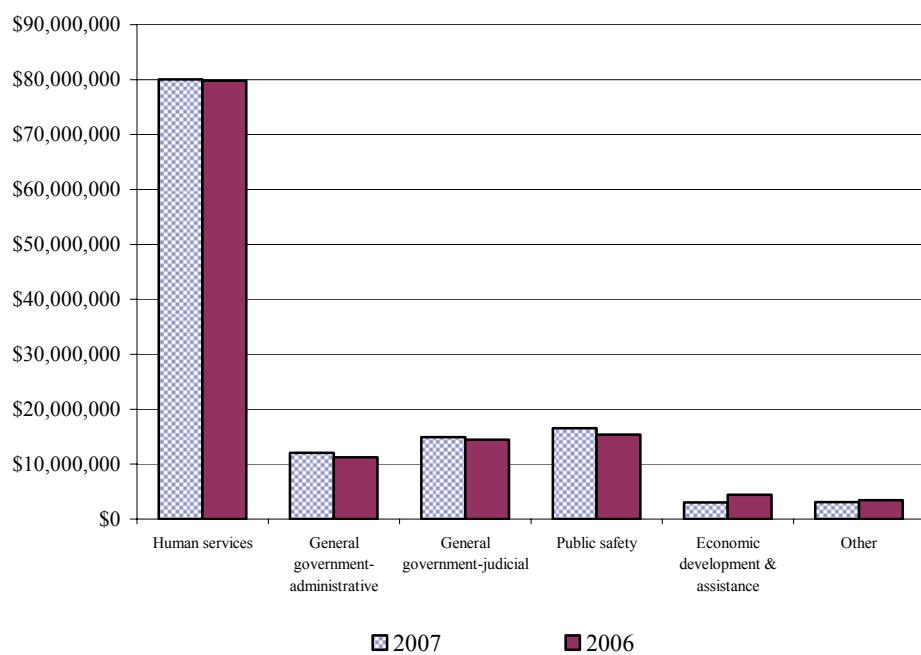
Twenty-three percent of the county's net assets are legally restricted (\$12,011,798). The remaining balance of *unrestricted net assets* (\$23,707,065) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Cumberland County is able to report positive fund balances in all three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities, with the exception of Emergency Telephone. As part of the 800 MHz project, Emergency Telephone purchased radio equipment for different Cumberland County municipalities and County departments. Therefore, the assets purchased with the bond proceeds are not on the balance sheet of Emergency Telephone, offsetting the liability and causing a negative fund balance. The same held true for the prior fiscal year.

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

	<b>Governmental</b> <b>activities</b>		<b>Business-type</b> <b>activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 12,843,544	12,013,727	27,045,921	25,097,720	39,889,465	37,111,447
Operating grants and contributions	83,661,942	84,528,008	2,409,138	2,692,975	86,071,080	87,220,983
Capital grants and contributions	404,518	168,712	265,793	76,263	670,311	244,975
General revenues:						
Property taxes	37,534,225	35,211,322	-	-	37,534,225	35,211,322
Other taxes	1,787,023	1,560,262	-	-	1,787,023	1,560,262
Unrestricted investment earnings	2,642,631	2,403,031	332,071	344,333	2,974,702	2,747,364
Total revenues	138,873,883	135,885,062	30,052,923	28,211,291	168,926,806	164,096,353
<b>Expenses:</b>						
General government-administrative	12,084,842	11,265,601	-	-	12,084,842	11,265,601
General government-judicial	14,884,695	14,431,904	-	-	14,884,695	14,431,904
Public safety	16,554,754	15,368,282	-	-	16,554,754	15,368,282
Roads and bridge maintenance	952,524	1,472,466	-	-	952,524	1,472,466
Recycling and solid waste management	535,267	567,813	-	-	535,267	567,813
Human services	80,058,280	79,781,407	-	-	80,058,280	79,781,407
Culture and recreation	81,430	45,273	-	-	81,430	45,273
Conservation	882,688	711,848	-	-	882,688	711,848
Community redevelopment and housing	245,888	379,553	-	-	245,888	379,553
Economic development and assistance	3,026,549	4,437,310	-	-	3,026,549	4,437,310
Interest on long-term debt	846,026	661,412	-	-	846,026	661,412
Indirect expenses	(432,428)	(393,955)	432,428	393,955	-	-
Claremont Nursing and Rehabilitation Center	-	-	21,715,212	21,604,381	21,715,212	21,604,381
Early Learning Center	-	-	487,679	456,022	487,679	456,022
Emergency telephone	-	-	5,163,736	4,817,157	5,163,736	4,817,157
Hazardous materials protection	-	-	278,299	223,403	278,299	223,403
Transportation services	-	-	2,122,585	1,889,158	2,122,585	1,889,158
Workers' compensation	-	-	800,216	450,000	800,216	450,000
Total expenses	129,720,515	128,728,914	31,000,155	29,834,076	160,720,670	158,562,990
Increase (decrease) in net assets before transfers	9,153,368	7,156,148	(947,232)	(1,622,785)	8,206,136	5,533,363
Transfers	(2,559,625)	(3,770,245)	2,559,625	3,770,245	-	-
Increase in net assets	6,593,743	3,385,903	1,612,393	2,147,460	8,206,136	5,533,363
<b>Net assets, beginning</b>	38,394,697	35,008,794	6,615,689	4,468,229	45,010,386	39,477,023
<b>Net assets, ending</b>	\$ 44,988,440	38,394,697	8,228,082	6,615,689	53,216,522	45,010,386

**Governmental activities.** The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2007:

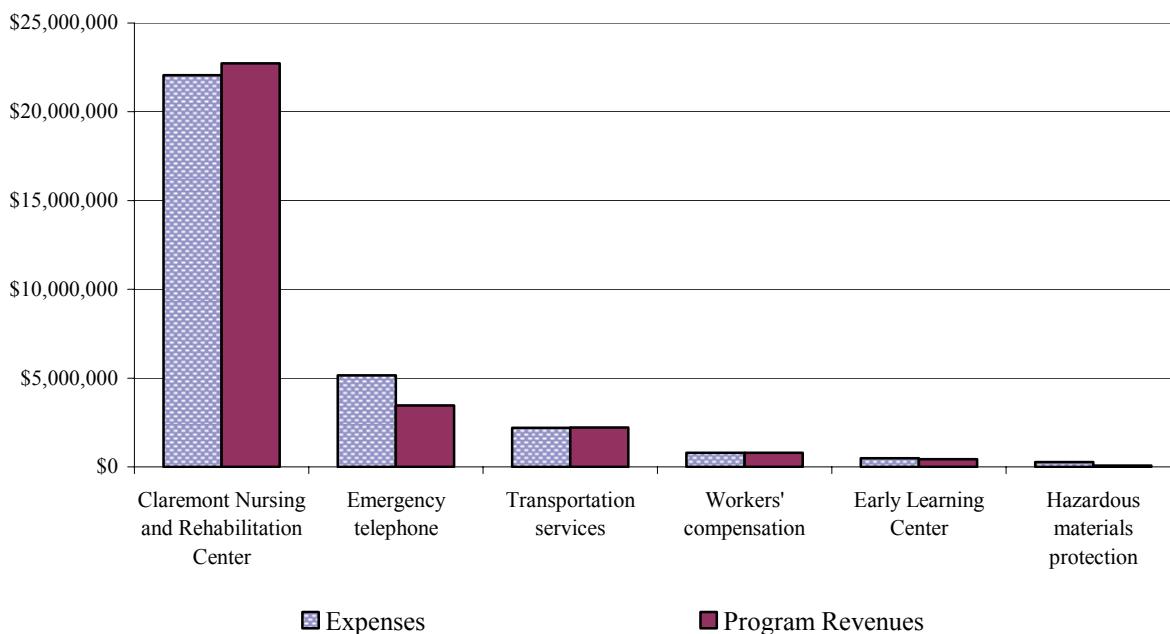
**Revenues by Source - Governmental Activities****Expense Comparison by Activity - Governmental Activities**

Governmental activities increased Cumberland County's net assets by \$6,593,743. The majority of this increase is caused by cost saving measures and items that were postponed to the 2008 budget. The primary changes in revenues and expenses are:

- Real estate tax increased by \$2,322,903. This growth is due to a four percent millage increase, new construction, and renovations of existing property.
- Charges for services increased \$829,817. This increase is mainly due to an increase in court costs in the Clerk of Courts Office.
- Transfers decreased \$1,210,620 mainly due to a decrease in Emergency Telephone Subsidy. Most of the decrease is related to the wireless revenue and the new Sprint/Nextel Planning Funding Agreement and Frequency Reconfiguration agreement.

**Business-type activities.** The following charts graphically depict the sources of revenue and functional expenses of business-type activities for the fiscal year ended December 31, 2007:

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



Business type activities increased Cumberland County's net assets by \$1,612,393. The primary changes in revenues and expenses are:

- Charges for services increased \$1,948,201. The majority of the increase is caused by the intergovernmental transfer incentive payments, increased rates, increased bed days at the nursing home, and department fees for workers compensation.
- Transfers decreased \$1,210,620 mainly due a decrease in Emergency Telephone Subsidy. Most of the decrease is related to the wireless revenue and the new Sprint/Nextel Planning Funding Agreement and Frequency Reconfiguration agreement.

**Financial Analysis of the County's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the year, Cumberland County's governmental funds reported combined ending fund balances of \$33,308,254, and an increase of \$751,498 in comparison to the prior year. Approximately 95 percent of the total amount (\$31,715,631) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to:

- open space/farmland preservation (\$642,544)
- offender supervision (\$505,044)
- criminal investigation (\$179,518)
- automation (\$71,062)
- Register of Wills Act 34 (\$61,650)
- prepaid items (\$130,617)
- criminal justice planning (\$2,188)

The general fund is the chief operating fund of Cumberland County. At the end of the year, unreserved fund balance of the general fund was \$20,679,184 while total fund balance was \$22,271,807. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund expenditures. Unreserved fund balance represents 48 percent of total general fund expenditures, while total fund balance represents 52 percent of general fund expenditures.

The fund balance of Cumberland County's general fund increased by \$2,177,487 during the current year. Key factors in this growth are as follows:

- Several cost savings measures and revenue enhancements were implemented early in 2007.
- The Landfill Post Closure Trust Fund was closed and the balance was transferred to the General Fund.

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

The County's emergency telephone fund has negative net assets of \$1,131,674 at December 31, 2007. This deficit will be alleviated as debt service payments are made on the bond that financed the purchase of new 800 MHz radios for other County municipalities and other County offices. To the extent that the emergency telephone fund is unable to generate sufficient cash to fund future debt service payments and fully cover operating costs, additional transfers-in will be provided by the County's general fund.

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

### **General Fund Budgetary Highlights**

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

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

The Commissioners formally approve all budget revisions that change the bottom line of a fund during bi-weekly Commissioner's hearings. The County Finance Office approves all other budget revisions except adjustments transferring budget amounts from one operating line item to another within a department (these are approved by the Department Head). The most common budget adjustments are budget transfers from one operating line item to another within a department. Other budget adjustments include transferring budget from contingency, capital, and salary and benefit budget lines.

The funds and classifications in the CAFR are presented differently from the funds and classifications in the budget document. The explanations below are based on the CAFR presentation. For example, Stop Grant is a separate fund in the budget document; however, Stop Grant in the CAFR is part of the General Fund.

The General Fund budgeted revenues (including other financing sources) remained unchanged for 2007.

Actual General Fund revenues (including other financing sources) received were \$2,566,195 over budget most of which is attributable to county charges (\$1,261,247), transfers in (\$775,046), and interest (\$440,825). County charges increased for multiple reasons; the Prothonotary increased fees, the Recorder of Deeds office received more revenues because mortgage interest rates remained lower than anticipated, indirect costs and building occupancy were higher than anticipated, the Sheriff received more revenue due to defaults on mortgages, credit cards, and car loans, rent from Dickinson College, reimbursement from the state for the District Attorney's salary, and reimbursement from the municipalities for gypsy moth spraying. Interest revenue was higher than budget due to a higher cash balance and interest rates remained higher than projected. Transfers-in increased due to the transfer of the Landfill Post Closure Trust Fund into the General Fund.

The General Fund budgeted expenses (including other financing uses) remained unchanged for 2007.

Actual General Fund expenses (including other financing uses) were under the final budget by \$3,159,521. The major items under budget were:

Subsidies	\$1,085,056
County Buildings	\$ 728,767

There are several reasons for the under budget situation. The state increased their Children and Youth funding for the previous fiscal year to cover the County's over-match. County buildings were under budget due to lower utilities costs directly related to the energy program and the Old Courthouse Brownstone renovation that was postponed to 2008. Multiple departments were under budget.

### **Capital Asset and Debt Administration**

**Capital Assets.** Cumberland County's investment in capital assets for its governmental and business type activities as of December 31, 2007, amounted to \$53,436,895 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements other than buildings, machinery and equipment, bridges, construction in progress and agricultural easements. The total increase in

Cumberland County's investment in capital assets for the current year was six percent (a 14 percent increase for governmental activities and a 4 percent decrease for business-type activities).

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

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Land	\$ 2,265,470	2,394,845	-	-	2,265,470	2,394,845
Buildings and systems	13,732,795	14,034,836	14,847,479	15,376,276	28,580,274	29,411,112
Improvements other than buildings	21,502	2,164	301,139	309,829	322,641	311,993
 Machinery and equipment	 6,138,883	 6,570,375	 4,480,834	 5,271,412	 10,619,717	 11,841,787
Bridges	1,214,049	1,308,467	-	-	1,214,049	1,308,467
Construction in progress	3,295,469	547,280	443,877	15,330	3,739,346	562,610
Agricultural easements	6,695,398	4,469,193	-	-	6,695,398	4,469,193
 Total	 \$33,363,566	 29,327,160	 20,073,329	 20,972,847	 53,436,895	 50,300,007

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

- The County purchased sixteen agricultural easements for a total of \$2,226,205.
- Computer hardware and software of \$626,091 was purchased to supplement the County's technological needs.
- The County purchased ten vehicles for \$397,328.
- The County added three 800 MHZ tower sites for the cost of \$245,617.

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

**Debt Administration.** At the end of the current fiscal year, Cumberland County had net outstanding bonded debt of \$21,326,996. The County's net general obligation notes total \$20,904,200. This debt is backed by the full faith and credit of the County. Cumberland County does not have any special assessment debt or revenue bonds.

The County's net outstanding general obligation bonds and notes at December 31, 2007 and 2006 were:

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
General Obligation Bonds	\$18,190,067	19,501,251	3,136,929	10,006,803	21,326,996	29,508,054
General Obligation Notes	2,178,280	2,299,581	18,725,920	12,879,989	20,904,200	15,179,570
 Total	 \$20,368,347	 21,800,832	 21,862,849	 22,886,792	 42,231,196	 44,687,624

Cumberland County's general obligation debt decreased by \$2,456,428. In 2007, the County issued general obligation notes – series 2007 to retire the 2001 variable rate bond issue. The refunding created an increase in debt service payments of \$215,472 and an economic loss of \$199,536. The debt service payments and economic loss were calculated based on interest rates on the date of the new note issue (June 19, 2007). The

County took advantage of fixing the variable rate bond when the short term and long term rates were relatively flat. There was less than a quarter of a percent between the variable rate and the yield of the general obligation note on the issue date. Also, the County is expecting interest rates to increase in the future and create an economic gain. Principal payments paid in 2007 on all general obligation bonds and notes were \$2,520,000.

Cumberland County's rating was confirmed at "AA+" from Standard & Poor's for the general obligation debt.

The current debt limitation for Cumberland County is \$410,877,334 which is significantly in excess of Cumberland County's outstanding general obligation debt.

In 2008, Cumberland County is planning on issuing general obligation bonds for Phase I of the prison expansion project, renovations to an existing building for the forensics center, and the new public safety building.

Additional information on Cumberland County's long-term debt can be found in Note 8 on pages 67-69 of this report.

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

#### **Economic Conditions in 2007**

Residents of Cumberland County benefited from one of the lowest unemployment levels in the Commonwealth throughout 2007. This recurring trend is expected to continue. Cumberland County's December unemployment rate was 3.2 percent while the statewide and national rates were 4.7 percent and five percent, respectively. Neighboring counties also have unemployment rates significantly below the statewide and national average. County residents also benefit from an array of employment opportunities based in the private sector as well as local, state, and federal governments.

Cumberland County continues to enjoy a diverse tax base with little concentration in any one taxpayer. The top ten taxpayers represent 2.90 percent of assessed values as of December 31, 2007

Highlights of the County's initiatives in the 2008 budget include:

- Phase I renovations for the County Prison
- Build a new public safety building
- Renovations to an existing County building for a new forensics center
- Farmland preservation/open space
- Continue performance management process
- Upgrade the brownstone on the front of the Old Courthouse

The General Fund ended 2007 with an unreserved/undesignated fund balance of \$16,711,823. At the end of 2008 the County is estimating an unreserved/undesignated fund balance of approximately \$13,500,000.

#### **Requests for Information**

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Cumberland County Controller, 1 Courthouse Square, Carlisle, PA 17013.

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## **Basic Financial Statements**

# STATEMENT OF NET ASSETS

December 31, 2007

## COUNTY OF CUMBERLAND, PENNSYLVANIA

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 29,877,179	3,816,034	33,693,213	58,657	127,022
Investments	5,226,779	5,000,000	10,226,779	275,000	195,353
Receivables (net of allowance):					
Taxes	1,940,630	—	1,940,630	—	—
Due from other governments	7,514,949	53,653	7,568,602	124,304	—
Accounts receivable	692,954	4,348,526	5,041,480	—	4,140
Court costs and fines receivable	608,635	—	608,635	—	—
Notes receivable	—	—	—	—	115,947
Due from component units	36,261	—	36,261	—	—
Internal balances	(631,221)	631,221	—	—	—
Prepaid items	158,829	149,063	307,892	—	—
Deferred charges	261,379	294,410	555,789	—	—
Restricted assets:					
Cash and cash equivalents	5,308,322	240,832	5,549,154	—	—
Capital assets not being depreciated:					
Land	2,265,470	—	2,265,470	—	—
Construction in progress	3,295,469	443,877	3,739,346	—	—
Agricultural easements	6,695,398	—	6,695,398	—	—
Capital assets net of accumulated depreciation:					
Buildings and systems	13,732,795	14,847,479	28,580,274	—	—
Improvements other than buildings	21,502	301,139	322,641	—	—
Machinery and equipment	6,138,883	4,480,834	10,619,717	67,382	—
Bridges	1,214,049	—	1,214,049	—	—
Other assets	33,386	—	33,386	—	—
Total assets	<u>84,391,648</u>	<u>34,607,068</u>	<u>118,998,716</u>	<u>525,343</u>	<u>442,462</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	9,470,565	976,267	10,446,832	38,897	4,446
Accrued payroll	1,400,926	328,370	1,729,296	7,912	—
Due to primary government	—	—	—	36,261	—
Due to other governments	620,327	—	620,327	—	—
Accrued interest payable	135,203	142,360	277,563	—	—
Unearned revenues	3,715,379	318,001	4,033,380	14,534	—
Funds held as fiduciary	258,366	413,757	672,123	—	—
Noncurrent liabilities:					
Due in less than one year:					
Capital lease payable	18,512	—	18,512	—	—
General obligation bonds payable	1,464,321	410,679	1,875,000	—	—
General obligation notes payable	125,205	734,795	860,000	—	—
Sick and vacation accrual	146,064	71,574	217,638	2,048	—
Workers' compensation claims payable	—	591,902	591,902	—	—
Due in more than one year:					
Capital lease payable	21,543	—	21,543	—	—
General obligation bonds payable	16,725,746	2,726,250	19,451,996	—	—
General obligation notes payable	2,053,075	17,991,125	20,044,200	—	—
Sick and vacation accrual	3,247,976	760,463	4,008,439	44,757	—
Workers' compensation claims payable	—	913,443	913,443	—	—
Total liabilities	<u>39,403,208</u>	<u>26,378,986</u>	<u>65,782,194</u>	<u>144,409</u>	<u>4,446</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	18,992,768	(1,495,109)	17,497,659	67,382	—
Restricted net assets for:					
Capital projects	4,043,499	—	4,043,499	—	—
Conservation	2,459,753	—	2,459,753	—	—
Community redevelopment and housing	28,377	—	28,377	—	—
Economic development	856,214	—	856,214	—	—
Human services	2,257,416	—	2,257,416	—	—
Judicial services	48,271	—	48,271	—	—
Public safety	737,701	—	737,701	—	—
Records improvement	810,019	—	810,019	—	—
Roads and bridges	770,548	—	770,548	—	—
Unrestricted	<u>13,983,874</u>	<u>9,723,191</u>	<u>23,707,065</u>	<u>313,552</u>	<u>438,016</u>
Total net assets	<u>\$ 44,988,440</u>	<u>8,228,082</u>	<u>53,216,522</u>	<u>380,934</u>	<u>438,016</u>

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

# STATEMENT OF ACTIVITIES

For the year ended December 31, 2007

## COUNTY OF CUMBERLAND, PENNSYLVANIA

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Indirect Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units		
						Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
<b>Primary government:</b>										
Governmental activities:										
General government - administrative	\$ 12,084,842	(1,273,836)	4,034,692	76,132	—	(6,700,182)	—	(6,700,182)	—	—
General government - judicial	14,884,695	102,443	3,760,691	2,531,381	54,953	(8,640,113)	—	(8,640,113)	—	—
Public safety	16,554,754	9,923	2,697,819	1,327,598	12,465	(12,526,795)	—	(12,526,795)	—	—
Roads and bridge maintenance	952,524	21,497	53,110	2,392,227	272,199	1,743,515	—	1,743,515	—	—
Recycling and waste management	535,267	51,646	266,099	57,033	—	(263,781)	—	(263,781)	—	—
Human services:										
Mental health/mental retardation	33,099,088	190,030	98,757	32,062,709	—	(1,127,652)	—	(1,127,652)	—	—
HealthChoices-Cumberland County	21,728,030	—	—	21,707,823	—	(20,207)	—	(20,207)	—	—
Children and youth	12,559,788	181,498	470,084	10,225,414	—	(2,045,788)	—	(2,045,788)	—	—
Food and shelter	4,298,143	95,159	364,704	4,149,274	—	120,676	—	120,676	—	—
Office of aging	4,176,758	115,361	110,770	4,033,513	—	(147,836)	—	(147,836)	—	—
Other	4,196,473	73,851	373,448	3,414,422	—	(482,454)	—	(482,454)	—	—
Culture and recreation	81,430	—	10,537	—	—	(70,893)	—	(70,893)	—	—
Conservation	882,688	—	139,365	77,726	64,901	(600,696)	—	(600,696)	—	—
Community redevelopment and housing	245,888	—	265,108	—	—	19,220	—	19,220	—	—
Economic development and assistance	3,026,549	—	198,360	1,606,690	—	(1,221,499)	—	(1,221,499)	—	—
Interest on long-term debt	846,026	—	—	—	—	(846,026)	—	(846,026)	—	—
Total governmental activities	<b>130,152,943</b>	<b>(432,428)</b>	<b>12,843,544</b>	<b>83,661,942</b>	<b>404,518</b>	<b>(32,810,511)</b>	<b>—</b>	<b>(32,810,511)</b>	<b>—</b>	<b>—</b>
Business-type activities:										
County nursing home	21,715,212	352,859	22,729,768	7,732	—	—	669,429	669,429	—	—
Early Learning Center	487,679	—	400,963	22,493	14,975	—	(49,248)	(49,248)	—	—
Emergency telephone	5,163,736	—	2,062,474	1,395,121	—	—	(1,706,141)	(1,706,141)	—	—
Hazardous materials protection	278,299	—	49,690	28,349	895	—	(199,365)	(199,365)	—	—
Transportation services	2,122,585	79,569	1,002,810	955,443	249,923	—	6,022	6,022	—	—
Workers' compensation	800,216	—	800,216	—	—	—	—	—	—	—
Total business-type activities	<b>30,567,727</b>	<b>432,428</b>	<b>27,045,921</b>	<b>2,409,138</b>	<b>265,793</b>	<b>—</b>	<b>(1,279,303)</b>	<b>(1,279,303)</b>	<b>—</b>	<b>—</b>
Total primary government	<b>\$ 160,720,670</b>	<b>—</b>	<b>39,889,465</b>	<b>86,071,080</b>	<b>670,311</b>	<b>(32,810,511)</b>	<b>(1,279,303)</b>	<b>(34,089,814)</b>	<b>—</b>	<b>—</b>
<b>Component units:</b>										
Conservation District	\$ 682,575	—	246,084	474,562	—	—	—	38,071	—	
Industrial Development Authority	42,358	—	10,060	—	—	—	—	—	(32,298)	
Total component units	<b>\$ 724,933</b>	<b>—</b>	<b>256,144</b>	<b>474,562</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>38,071</b>	<b>(32,298)</b>	
General revenues:										
Real estate taxes						37,534,225	—	37,534,225	—	—
Per capita taxes						729,222	—	729,222	—	—
Hotel taxes						1,057,801	—	1,057,801	—	—
Unrestricted investment earnings						2,642,631	332,071	2,974,702	12,140	8,281
Transfers						(2,559,625)	2,559,625	—	—	—
Total general revenues and transfers						<b>39,404,254</b>	<b>2,891,696</b>	<b>42,295,950</b>	<b>12,140</b>	<b>8,281</b>
Change in net assets						6,593,743	1,612,393	8,206,136	50,211	(24,017)
Net assets-beginning						38,394,697	6,615,689	45,010,386	330,723	462,033
Net assets-ending						<b>\$ 44,988,440</b>	<b>8,228,082</b>	<b>53,216,522</b>	<b>380,934</b>	<b>438,016</b>

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

# BALANCE SHEET

## Governmental Funds

December 31, 2007

### COUNTY OF CUMBERLAND, PENNSYLVANIA

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices- Cumberland County	Other Non-major Funds	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 22,545,833	4,908,745	300	106,633	2,315,668	29,877,179
Investments	357,779	2,000,000	—	—	2,869,000	5,226,779
Receivables (net of allowance):						
Taxes	1,883,991	—	—	—	56,639	1,940,630
Due from other governments	295,593	203,054	4,106,263	—	2,910,039	7,514,949
Accounts receivable	228,394	3,229	—	—	461,331	692,954
Due from other funds	1,390,228	351,285	—	—	1,765,673	3,507,186
Due from component units	36,440	—	—	—	—	36,440
Prepaid items	130,617	711	1,159	—	26,342	158,829
Restricted cash	859,694	—	—	—	4,448,628	5,308,322
Other assets	33,411	—	—	—	—	33,411
Total assets	\$ 27,761,980	7,467,024	4,107,722	106,633	14,853,320	54,296,679
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable	\$ 1,950,725	4,261,269	1,210,134	2,991	2,030,511	9,455,630
Accrued liabilities and withholdings	1,180,929	48,109	57,544	—	114,344	1,400,926
Due to other funds	—	—	2,838,679	26,616	1,324,127	4,189,422
Due to other governments	510,821	—	—	—	—	510,821
Deferred taxes	1,393,991	—	—	—	—	1,393,991
Deferred revenue	201,310	3,157,646	1,365	77,026	341,922	3,779,269
Funds held as fiduciary	252,397	—	—	—	5,969	258,366
Total liabilities	\$ 5,490,173	7,467,024	4,107,722	106,633	3,816,873	20,988,425
Fund balances:						
Reserved for:						
Prepaid items	130,617	—	—	—	—	130,617
Row office automation	71,062	—	—	—	—	71,062
Register of Wills-Act 34	61,650	—	—	—	—	61,650
Open space/farmland preservation	642,544	—	—	—	—	642,544
Offenders' supervision	505,044	—	—	—	—	505,044
Criminal investigation	179,518	—	—	—	—	179,518
Criminal justice planning	2,188	—	—	—	—	2,188
Unreserved:						
Designated:						
Future capital projects	2,500,000	—	—	—	—	2,500,000
Future debt service arbitrage payments	225,000	—	—	—	—	225,000
Prison canteen	104,460	—	—	—	—	104,460
Farmland preservation	441,399	—	—	—	—	441,399
Landfill closure	676,122	—	—	—	—	676,122
Undesignated, reported in:						
General fund	16,732,203	—	—	—	—	16,732,203
Special revenue funds	—	—	—	—	6,994,029	6,994,029
Capital project funds	—	—	—	—	4,042,418	4,042,418
Total fund balances	\$ 22,271,807	—	—	—	11,036,447	33,308,254
Total liabilities and fund balances	\$ 27,761,980	7,467,024	4,107,722	106,633	14,853,320	54,296,679

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE****SHEET TO THE STATEMENT OF NET ASSETS***December 31, 2007***COUNTY OF CUMBERLAND, PENNSYLVANIA**

Total fund balances-governmental funds	\$ 33,308,254
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	33,363,566
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,957,006
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This balance constitutes the balance of deferred bond issue costs.	342,595
Internal service fund used by management to charge the costs of the self-insured workers' compensation to individual funds.	50,817
Liabilities based on the hotel sales taxes receivable are due to the Army Heritage Foundation when received. However, the funds are not available in the current period and; therefore, are not reported as liabilities in the fund.	(14,937)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long term liabilities consist of:	
Bonds payable	(18,273,838)
Notes payable	(2,175,725)
Sick and vacation payable	(3,394,040)
Capital lease payable	(40,055)
Interest accrued on long-term liabilities is not due and payable in the current period and, therefore is not reported in the funds.	(135,203)
Net assets of governmental activities	<u><u>44,988,440</u></u>

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

# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCES

### Governmental Funds

*For the year ended December 31, 2007*

#### COUNTY OF CUMBERLAND, PENNSYLVANIA

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices-Cumberland County	Other Non-major Funds	Total
<b>Revenues:</b>						
Taxes	\$ 38,116,347	—	—	—	1,057,801	39,174,148
Licenses and permits	104,440	—	—	—	—	104,440
Grants	3,707,261	32,054,519	10,222,449	21,707,823	16,178,409	83,870,461
County charges	7,871,913	—	470,084	—	2,227,868	10,569,865
Court costs, fines and forfeitures	1,370,372	—	—	—	354,007	1,724,379
Interest	1,592,882	446,148	—	20,210	583,391	2,642,631
Payment in lieu of taxes	143,355	—	—	—	—	143,355
Contributions and other	138,410	106,946	2,965	—	60,045	308,366
Total revenues	<u>53,044,980</u>	<u>32,607,613</u>	<u>10,695,498</u>	<u>21,728,033</u>	<u>20,461,521</u>	<u>138,537,645</u>
<b>Expenditures:</b>						
Current:						
General government – administrative	9,085,030	—	—	—	451,414	9,536,444
General government – judicial	12,117,136	—	—	—	3,535,420	15,652,556
Public safety	15,032,388	—	—	—	—	15,032,388
Public works and enterprises	—	—	—	—	934,188	934,188
Human services	721,015	33,248,461	12,710,692	21,728,030	12,543,779	80,951,977
Culture and recreation	80,918	—	—	—	21,152	102,070
Conservation and development	632,736	—	—	—	431,585	1,064,321
Economic development and assistance	1,875,984	—	—	—	1,024,090	2,900,074
Debt service:						
Principal retirement	—	—	—	—	1,468,327	1,468,327
Debt interest	—	—	—	—	957,841	957,841
Capital outlay	2,843,445	23,165	111,271	—	3,144,752	6,122,633
Payments to other governments	329,416	—	—	—	258,827	588,243
Total expenditures	<u>42,718,068</u>	<u>33,271,626</u>	<u>12,821,963</u>	<u>21,728,030</u>	<u>24,771,375</u>	<u>135,311,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,326,912</u>	<u>(664,013)</u>	<u>(2,126,465)</u>	<u>3</u>	<u>(4,309,854)</u>	<u>3,226,583</u>
<b>Other financing sources (uses):</b>						
Transfers in	1,254,458	667,346	2,195,460	—	5,173,647	9,290,911
Transfers out	(9,403,883)	(3,333)	(68,995)	(3)	(2,374,132)	(11,850,346)
Proceeds from sale of assets	—	—	—	—	84,350	84,350
Total other financing sources (uses)	<u>(8,149,425)</u>	<u>664,013</u>	<u>2,126,465</u>	<u>(3)</u>	<u>2,883,865</u>	<u>(2,475,085)</u>
Net change in fund balances	2,177,487	—	—	—	(1,425,989)	751,498
Fund balances, beginning of year	<u>20,094,320</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,462,436</u>	<u>32,556,756</u>
Fund balances, end of year	<u>\$ 22,271,807</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,036,447</u>	<u>33,308,254</u>

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

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

*For the year ended December 31, 2007*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

Net change in fund balances-total governmental funds \$ 751,498

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. In the current period these amounts are:

Expenditures for capital assets	6,188,391
Depreciation expense	(2,007,202)
Retirement and sale of equipment	(144,783)

Deferred revenues that do not provide current financial resources (real estate tax, per capita taxes and hotel tax) and revenues which are not recognized as available (court costs and fines) in the governmental funds but are earned in the statement of activities. 297,499

The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 1,468,328

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. (35,130)

Compensated absence expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. (146,917)

Governmental funds do not recognize interest on long term debt until legally due, while the statement of net assets accrues for interest payable. 111,815

Expenditures based on the hotel sales taxes receivable are due to the Army Heritage Foundation when received. However, the funds are not available in the current period and therefore, are not reported as expenditures in the economic development fund. (14,937)

Internal service fund are used by management to charge the cost of workers' compensation to individual funds. 125,181

Change in net assets of governmental activities \$ 6,593,743

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

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

**December 31, 2007**

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

	<b>Business-type Activities</b>				
	<b>County Nursing Home</b>	<b>Enterprise Funds</b>			<b>Internal Service Fund</b>
		<b>Emergency Telephone</b>	<b>Other Non-major Funds</b>	<b>Totals</b>	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 12,009	1,776,973	200	1,789,182	2,026,852
Investments	4,800,000	200,000	—	5,000,000	—
Restricted patient funds	240,832	—	—	240,832	—
Due from other funds	—	807,593	173,524	981,117	—
Accounts receivable (net of allowance):					
Patient accounts receivable	4,078,296	—	—	4,078,296	—
Customer accounts receivable	—	257,846	4,384	262,230	8,000
Due from other governments	—	32,582	21,071	53,653	—
Prepaid items	14,574	134,490	—	149,064	—
Total current assets	<u>9,145,711</u>	<u>3,209,484</u>	<u>199,179</u>	<u>12,554,374</u>	<u>2,034,852</u>
Noncurrent assets:					
Deferred charges	179,088	115,322	—	294,410	—
Capital assets, net of depreciation	13,298,293	5,455,696	1,319,340	20,073,329	—
Total noncurrent assets	<u>13,477,381</u>	<u>5,571,018</u>	<u>1,319,340</u>	<u>20,367,739</u>	<u>—</u>
Total assets	<u>22,623,092</u>	<u>8,780,502</u>	<u>1,518,519</u>	<u>32,922,113</u>	<u>2,034,852</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	686,225	265,356	21,540	973,121	3,146
Accrued liabilities and withholdings:					
Accrued payroll	260,106	44,783	23,481	328,370	—
Accrued interest	83,384	58,976	—	142,360	—
Due to other funds	294,687	—	4,194	298,881	—
Unearned revenue	—	311,540	6,461	318,001	—
Funds held as fiduciary	413,757	—	—	413,757	—
General obligation bonds payable	241,888	168,791	—	410,679	—
General obligation notes payable	350,635	384,160	—	734,795	—
Sick and vacation accrual	55,307	9,057	7,210	71,574	—
Workers' compensation claims payable	—	—	—	—	591,902
Total current liabilities	<u>2,385,989</u>	<u>1,242,663</u>	<u>62,886</u>	<u>3,691,538</u>	<u>595,048</u>
Noncurrent liabilities:					
Due in more than one year:					
General obligation bonds payable	1,803,169	923,081	—	2,726,250	—
General obligation notes payable	10,469,352	7,521,773	—	17,991,125	—
Workers' compensation claims payable	—	—	—	—	913,443
Sick and vacation accrual	476,396	224,659	59,408	760,463	—
Total noncurrent liabilities	<u>12,748,917</u>	<u>8,669,513</u>	<u>59,408</u>	<u>21,477,838</u>	<u>913,443</u>
Total liabilities	<u>15,134,906</u>	<u>9,912,176</u>	<u>122,294</u>	<u>25,169,376</u>	<u>1,508,491</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	612,337	(3,426,786)	1,319,340	(1,495,109)	—
Unrestricted	6,875,849	2,295,112	76,885	9,247,846	526,361
Total net assets (deficiency)	<u>\$ 7,488,186</u>	<u>(1,131,674)</u>	<u>1,396,225</u>	<u>7,752,737</u>	<u>526,361</u>
Amounts reported for business-type activities in the statement of net assets are different because:					
Internal service fund used by management to charge the cost of workers' compensation claims to individual funds. The net assets of the internal service fund are included in business-type activities in the statement of net assets.					526,361
Adjustment to reflect the consolidation of internal service activity related to governmental and component unit activities.					(51,016)
Net assets of business-type activities					<u>\$ 8,228,082</u>

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

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

**Proprietary Funds**

*For the year ended December 31, 2007*

**COUNTY OF CUMBERLAND, PENNSYLVANIA**

	<b>Business-type Activities</b>				
	<b>Enterprise Funds</b>			<b>Internal Service Fund</b>	
	<b>County Nursing Home</b>	<b>Emergency Telephone</b>	<b>Other Non-major Funds</b>	<b>Totals</b>	<b>Workers' Compensation</b>
<b>Operating revenues:</b>					
Charges for sales and services:					
County charges	\$ 22,697,679	2,062,474	1,454,340	26,214,493	800,216
Rentals and other revenues	33,988	350	—	34,338	—
Total operating revenues	<u>22,731,667</u>	<u>2,062,824</u>	<u>1,454,340</u>	<u>26,248,831</u>	<u>800,216</u>
<b>Operating expenses:</b>					
Patient/client services	17,103,565	3,899,236	2,663,345	23,666,146	121,631
Depreciation	974,897	826,723	318,292	2,119,912	—
Loss and loss adjusting	—	—	—	—	408,082
Administrative	3,599,795	66,780	—	3,666,575	—
Total operating expenses	<u>21,678,257</u>	<u>4,792,739</u>	<u>2,981,637</u>	<u>29,452,633</u>	<u>529,713</u>
Operating income (loss)	<u>1,053,410</u>	<u>(2,729,915)</u>	<u>(1,527,297)</u>	<u>(3,203,802)</u>	<u>270,503</u>
<b>Nonoperating revenues (expenses):</b>					
Grants	5,720	1,394,771	1,271,200	2,671,691	—
Interest income	189,663	48,884	533	239,080	92,992
Interest expense	(519,138)	(372,972)	(253)	(892,363)	—
Payment to municipalities	—	(4,422)	—	(4,422)	—
Total net nonoperating revenues (expenses)	<u>(323,755)</u>	<u>1,066,261</u>	<u>1,271,480</u>	<u>2,013,986</u>	<u>92,992</u>
Income (loss) before transfers	<u>729,655</u>	<u>(1,663,654)</u>	<u>(255,817)</u>	<u>(1,189,816)</u>	<u>363,495</u>
Contributed capital	113	697	3,997	4,807	—
Transfers in	—	2,366,449	197,347	2,563,796	—
Transfers out	—	—	(4,361)	(4,361)	—
Change in net assets	<u>729,768</u>	<u>703,492</u>	<u>(58,834)</u>	<u>1,374,426</u>	<u>363,495</u>
Total net assets (deficiency) - beginning	<u>6,758,418</u>	<u>(1,835,166)</u>	<u>1,455,059</u>		<u>162,866</u>
Total net assets (deficiency) - ending	<u>\$ 7,488,186</u>	<u>(1,131,674)</u>	<u>1,396,225</u>		<u>526,361</u>

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

The internal service fund is used by management to charge the cost of workers' compensation claims to individual funds. The net revenues of certain activities of the internal service fund are reported within business-type activities.	363,495
Adjustment to reflect the consolidation of internal service fund activity related to governmental and component unit activities.	(125,528)
Change in net assets of business-type activities	<u>\$ 1,612,393</u>

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

**STATEMENT OF CASH FLOWS**  
**Proprietary Funds**

*For the year ended December 31, 2007*

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				Internal Service Fund Workers' Compensation	
	Enterprise Funds					
	County Nursing Home	Emergency Telephone	Other Non- major Funds	Totals		
<b>Cash flows from operating activities:</b>						
Cash received on surcharges	\$ —	2,759,785	—	2,759,785	—	
Cash received on county charges	22,691,226	—	1,446,813	24,138,039	799,216	
Payments to vendors	(5,095,628)	(1,436,698)	(1,332,557)	(7,864,883)	—	
Payments to employees	(15,284,482)	(3,030,315)	(1,293,648)	(19,608,445)	(603,983)	
Net cash provided by (used in) operating activities	<u>2,311,116</u>	<u>(1,707,228)</u>	<u>(1,179,392)</u>	<u>(575,504)</u>	<u>195,233</u>	
<b>Cash flows from noncapital financing activities:</b>						
Subsidy from federal/state grants	5,720	1,706,311	1,011,637	2,723,668	—	
Payments to municipalities	—	(4,422)	—	(4,422)	—	
Transfers from other funds	—	2,755,874	201,103	2,956,977	—	
Proceeds from notes payable	9,472,638	—	—	9,472,638	—	
Principal paid on notes payable	(9,472,638)	—	—	(9,472,638)	—	
Net cash provided by noncapital financing activities	<u>5,720</u>	<u>4,457,763</u>	<u>1,212,740</u>	<u>5,676,223</u>	<u>—</u>	
<b>Cash flows from capital and related financing activities:</b>						
Contributed capital	113	—	—	113	—	
Subsidy from federal/state grants	—	—	279,843	279,843	—	
Purchase of capital assets	(139,909)	(899,790)	(305,093)	(1,344,792)	—	
Proceeds from the issuance of notes	5,395,082	1,214,918	—	6,610,000	—	
Principal paid on capital debt	(5,838,506)	(1,721,193)	(8,378)	(7,568,077)	—	
Interest paid on capital debt	(554,718)	(377,202)	(253)	(932,173)	—	
Net cash used in capital financing activities	<u>(1,137,938)</u>	<u>(1,783,267)</u>	<u>(33,881)</u>	<u>(2,955,086)</u>	<u>—</u>	
<b>Cash flows from investing activities:</b>						
Proceeds from the sale and maturities of investments	8,843,000	750,000	—	9,593,000	—	
Purchase of investments	(13,643,000)	(950,000)	—	(14,593,000)	—	
Investment income received	189,663	48,884	533	239,080	92,992	
Net cash provided by (used in) investing activities	<u>(4,610,337)</u>	<u>(151,116)</u>	<u>533</u>	<u>(4,760,920)</u>	<u>92,992</u>	
Net increase (decrease) in cash and cash equivalents	(3,431,439)	816,152	—	(2,615,287)	288,225	
Cash and cash equivalents, January 1	3,684,280	960,821	200	4,645,301	1,738,627	
Cash and cash equivalents, December 31	<u>\$ 252,841</u>	<u>1,776,973</u>	<u>200</u>	<u>2,030,014</u>	<u>2,026,852</u>	

(Continued)

**STATEMENT OF CASH FLOWS**  
**Proprietary Funds**

*For the year ended December 31, 2007*

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				
	Enterprise Funds				Internal Service Fund Workers' Compensation
	County Nursing Home	Emergency Telephone	Other Non-major Funds	Totals	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 1,053,410	(2,729,915)	(1,527,297)	(3,203,802)	270,503
Adjustments to reconcile operating income (loss) to net cash used by operating activities:					
Depreciation expense	974,897	826,723	318,292	2,119,912	—
Loss on disposal of capital assets	3,750	92,408	32,935	129,093	—
Changes in assets and liabilities in:					
Patient accounts receivable	(48,002)	—	—	(48,002)	(1,000)
Due from other governments	—	(2,531)	(6,499)	(9,030)	—
Customer accounts receivable	\$ —	699,492	(1,027)	698,465	—
Prepaid items	(6,770)	(27,412)	—	(34,182)	—
Deferred charges	(3,895)	5,797	—	1,902	—
Accounts payable	34,758	191,669	2,629	229,056	(15)
Accrued liabilities and withholdings	15,109	6,069	9,137	30,315	—
Due to other funds	227,161	(769,528)	(7,562)	(549,929)	—
Funds held as fiduciary	60,698	—	—	60,698	—
Long term debt-claims payable	—	—	—	—	(74,255)
Total adjustments	<u>1,257,706</u>	<u>1,022,687</u>	<u>347,905</u>	<u>2,628,298</u>	<u>(75,270)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,311,116</u>	<u>(1,707,228)</u>	<u>(1,179,392)</u>	<u>(575,504)</u>	<u>195,233</u>

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

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

**STATEMENT OF FIDUCIARY NET ASSETS****Fiduciary Funds***December 31, 2007***COUNTY OF CUMERLAND, PENNSYLVANIA**

	<b>Pension Trust – Employees' Retirement</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,166,543	4,957,723
Investments, at fair value		
U.S. Government securities	35,174,434	—
Corporate bonds	13,582,483	—
Corporate stocks	35,326,692	—
Mutual funds	28,552,490	—
Total investments	<u>112,636,099</u>	<u>—</u>
Accrued interest and dividends receivable	<u>2,423,407</u>	<u>—</u>
Total assets	<u><u>117,226,049</u></u>	<u><u>4,957,723</u></u>
<b>Liabilities</b>		
Due to other governments	—	1,215,464
Escrow and other liabilities	<u>22,996</u>	<u>3,742,259</u>
Total liabilities	<u><u>22,996</u></u>	<u><u>4,957,723</u></u>
<b>Net assets</b>		
Net assets held in trust for pension benefits and other purposes	<u><u>\$ 117,203,053</u></u>	<u><u>—</u></u>

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS****Pension Trust Fund***For the year ended December 31, 2007*

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**COUNTY OF CUMBERLAND, PENNSYLVANIA**

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**Additions:**

Contributions:

Employer	\$ 3,018,632
Plan members	2,419,654
Total contributions	<u>5,438,286</u>

Investment income:

Net appreciation in fair value of investments	2,851,902
Interest	4,043,345
Dividends	1,256,702
Total investment income	<u>8,151,949</u>
Less investment expense	(309,752)
Net investment earnings	<u>7,842,197</u>
Total additions	<u>13,280,483</u>

**Deductions:**

Benefits	3,869,446
Refunds of contributions	552,000
Administrative expenses	116,382
Total deductions	<u>4,537,828</u>
Change in net assets	<u>8,742,655</u>

**Net assets:**

Beginning of year	<u>108,460,398</u>
End of year	<u>\$ 117,203,053</u>

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

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## **Notes to the Financial Statements**

**1. Summary of Significant Accounting Policies**

The County's significant accounting policies are described below.

**A. The Reporting Entity**

The County of Cumberland is located in south central Pennsylvania, to the immediate west of the City of Harrisburg, the Capital of the Commonwealth. It is a County of the fourth class founded January 27, 1750, and operates under an elected three-member Board of Commissioners. The County provides various governmental services including health and welfare and community enrichment programs to its 228,019 residents.

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

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

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

***(1) Component Units***

Three legally separate organizations, discussed below, are treated as component units of the County due to the County's authority to appoint board members.

***Blended Component Units***

The Cumberland Area Economic Development Corporation (CAEDC) is a governmental not-for-profit that, despite being legally separate, is reported as a blended component unit (a non-major special revenue fund). The CAEDC is reported as blended with the County because CAEDC's governing body is substantively the same as that of the County. Separate financial statements may be obtained from the Cumberland Area Economic Development Corporation, 401 East Louther Street, Suite 209, Carlisle, PA 17013.

***Discretely Presented Component Units***

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

***Cumberland County Conservation District***

The District was formed by the County Commissioners in 1952, pursuant to the Conservation District Law of the Commonwealth to manage the conservation of natural resources in the County. The seven-member board

is made up of one County Commissioner and six members appointed by the Commissioners from a list of nominees received from organizations approved by the Commonwealth.

The Commonwealth Law gives the County certain powers to supervise and direct the operations of the District. Employees of the District are County employees subject to the County Salary Board. The County receives reimbursement from the Commonwealth for a percentage of the direct salaries of the District employees and is reimbursed for certain other costs. The Law also gives the Commissioners the ability to unilaterally disband the District if they believe a substantial portion of land owners desire such action. The District publishes a separate audit report, which may be obtained at the District's office, 310 Allen Road, Suite 301, Carlisle, PA 17013-9101.

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

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

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

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

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

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

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

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

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

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

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

### **Cumberland County Library System**

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

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

### **Other Organizations**

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

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

***(3) Joint Ventures***

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

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

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

Selected disclosures from CAT's 2007 unaudited financial statements are:

<u>Fiscal year:</u>	<u>June 30, 2007</u>
Operating revenues	\$ 6,066,595
Operating expenses	18,595,307
Loss from operations	(12,528,712)
Total nonoperating revenues (expenses)	9,274,095
Capital grant funding	9,289,914
Net assets	27,432,474
Unrestricted deficit	(465,732)

CAT also has a \$750,000 line of credit with a bank at the bank's prime rate plus 150 basis points as of June 30, 2007, none of which was outstanding at June 30, 2007. The line of credit is secured by a security interest in pending Commonwealth grant receipts.

Per the aforementioned Agreement, the County's annual subsidy payment is \$225,455. Additionally, the County pays approximately \$11,000 per year to CAT for transportation services for Shippensburg Borough, and \$8,000 for transportation services between Shippensburg and Newville. In 2007, the County paid \$233,455 to CAT.

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

***(4) Prison Board***

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

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

**B. Basis of presentation**

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

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

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

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

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

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

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

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

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

The government-wide financial statements report revenues when earned and expenses when the liability is incurred regardless of the timing of related cash flows. County taxes are reported as revenue in the year for which they are levied. Grants and similar revenues are deemed earned when all eligibility requirements

imposed by the provider have been met. Disbursement of grant funds in payment of program costs is typically an eligibility criterion. Any excess of grant receipts or grant expenditures at year end is recorded as deferred revenue or accounts receivable, respectively.

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

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

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

Grants, real estate taxes and per capita taxes associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenues are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

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

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

The *children and youth fund* accounts for monies received from various federal, state, and local sources to provide support services to underprivileged juveniles.

The *HealthChoices-Cumberland County fund* accounts for the County's participation in Pennsylvania's innovative mandatory managed care program for Medical Assistance consumers. The program is designed to improve access to and quality of care for Medical Assistance consumers throughout Pennsylvania.

The County reports the following major proprietary funds:

The *County nursing home* accounts for the activities of the County's Claremont Nursing and Rehabilitation Center. The County's nursing home provides care to individuals in the community with medical/nursing needs who require residential nursing home care.

The *emergency telephone fund* accounts for the operation of the County's emergency 911 communication center.

Additionally, the County reports the following fund types:

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

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

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

*Fiduciary funds*, consisting of the County's pension trust and agency funds, are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, or other governments. The pension trust fund accounts for the retirement contributions of the County and its employees. The agency funds account for cash collected by elected row officers (Clerk of Court, District Attorney, Prothonotary, Recorder of Deeds, Register of Wills, Sheriff, and Treasurer) and other County offices and is subsequently disbursed to individuals, private organizations and other governments for whom it was collected.

#### **E. Interfund Eliminations**

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

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

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

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

#### **I. Deposits and Investments**

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

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

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

#### **J. Prepays**

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

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

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

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

Restricted investments in business-type activities consist of resident money held in a fiduciary capacity at the County's nursing home.

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

Capital assets, which include land, improvements other than buildings, buildings and systems, machinery and equipment, bridges (infrastructure), construction in progress and agricultural easements, are recorded in the applicable governmental and business-type activities columns in the government-wide statement of net assets. Capital assets are defined by the County as assets with a value greater than the range of \$500 to \$1,000 depending on the type of asset or departmental reporting requirements and an initial useful life greater than

one year. This capitalization policy is applied to individual capital assets rather than to groups/sets of capital assets (e.g. chairs, desks, etc.). Such assets are valued at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated.

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

Maintenance, repairs, and equipment less than the capitalization threshold are charged to operations when incurred. Costs that materially change capacities or extend useful lives are capitalized.

Upon sale or retirement the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results in operations.

Major outlays for capital assets are capitalized when incurred. Construction in progress costs are capitalized as projects are constructed. Depreciation begins when the project is placed into service. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

## **M. Compensated Absences**

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

- Upon termination, all unused vacation time and paid time off up to a maximum of 30 days, will be paid with the final check.
- Upon termination, employees will be paid for one half of their total unused sick time up to a maximum of 45 days. Two types of sick leave exist within the County:
  - Accrued prior to August 1, 1997 and carried forward from year to year
  - Five days earned each year and which is not permitted to be carried into the next year.
- For those departments required to provide 24-hour coverage on holidays, employees will be paid a supplemental day's wages for all accumulated holidays worked.

**N. Long-term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond and note discounts and premiums, as well as issuance costs and deferred amounts on refundings, are deferred and amortized on the straight-line basis, which approximates the effective interest methods over the bond and note terms. Bonds and notes payable are reported net of applicable deferred amounts on refundings, discounts and premiums.

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

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

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions for which it carries commercial insurance. Insurance settlements have not exceeded insurance coverage for the past ten years.

The County establishes claims liabilities for its workers' compensation self-insurance activities. The liability is based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and estimates of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the claims involved. Estimated amounts of subrogation and reinsurance that are recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit because reliance is placed on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The County has established a trust account with a local bank to fund its workers' compensation liabilities and has accounted for this in an internal service fund.

**P. Fund Balance Reserves and Designations*****(1) Fund Balance Reserves***

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

***Reserve for prepaid items***

The County under certain contracts, expends monies in advance of receiving the goods or services. Because the expense has not been recorded, a reserve must be established for the prepaid account balance.

***Reserve for Row Office automation***

- ***Clerk of Court automation***

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

- ***Prothonotary automation***

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

- ***Register of Wills automation***

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

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

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

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

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

***Reserve for offenders' supervision***

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

***Reserve for criminal investigation***

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

***Reserve for criminal justice planning***

The County receives monies from grants, restitution and contributions which are used to provide integral planning assistance in matters of criminal justice administrations and systematic improvements.

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

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

***Future capital projects***

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

***Future debt service arbitrage payments***

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

***Prison canteen***

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

***Farmland preservation***

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

***Landfill closure***

This designation was established to cover costs for remedial measures and emergency actions that are necessary to prevent or abate adverse effects upon the environment after closure of the landfill.

***Q. Retirement Benefits***

The County funds accrued pension costs on its contributory defined benefit pension plan covering substantially all employees. Prior service costs have been fully amortized. Additionally, by permitting retired employees the ability to participate in the employee health plan at the same premium rate, albeit 100% paid for by the retirees, the County is providing an implicit rate subsidy to its retirees. The County provides no other postretirement benefits for County employees.

***R. Use of Estimates***

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

***S. New Accounting Pronouncements***

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for Other Post Employment Benefits (OPEB) plan trust funds and other funds used to accumulate assets and pay OPEB. GASB 43 was effective for periods beginning after December 15, 2006. Currently, the County has no trust fund or other fund to accumulate assets and pay OPEB; therefore, this Standard does not impact the County. Should such benefits be offered in the future, GASB 43 will be appropriately implemented.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. This Statement establishes standards for the reporting of non-pension post-employment benefits. In qualifying for the second phase of implementation, GASB 45 is effective for periods beginning after December 15, 2007. The County provides retirees an implicit rate subsidy by allowing County retirees to purchase County health insurance at employee rates. The County is currently evaluating what effect adoption of GASB 45 will have on the County's financial results.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*. This Statement improves the disclosure of the unavailability of future revenues that have been pledged or sold. GASB 48 was effective for periods beginning after December 15, 2006. Although the County has not, as a matter of practice, sold or pledged receivables and future revenues, the County will implement this Statement when applicable.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting requirements if certain existing pollution-related obligating events occur. GASB 49 is effective for periods beginning after December 15, 2007. Subsequent to the effective date, if any of the obligating events occur, GASB 49 will be appropriately implemented.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 20 and No. 27*. This Statement provides additional required disclosures for pension plans in order that they are more similar to the required disclosures for OPEB. GASB 50 is effective for periods beginning after June 15, 2007. The County will include any applicable additional disclosures in its 2008 CAFR.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Due to questions arising after the implementation of GASB 34, this Statement provides further guidance on whether and when intangible assets, specifically easements, should be considered capital assets for financial reporting purposes. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 with the provisions generally required to be applied retroactively. The County is currently evaluating what effect, if any, adoption of GASB 51 will have on the County's net assets and activities.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The Statement requires endowments to report their land and other real estate held as investments at fair value instead of historical cost as currently reported. The changes in fair value will then be reported as investment income annually, rather than just in the year the investment is sold. GASB 52 is effective for periods beginning after June 15, 2008. Although the County does not currently maintain an endowment, the County will implement this Statement when applicable.

In June 2007, the GASB issued Concept Statement No. 4, *Elements of Financial Statements*. This Concept Statement establishes definitions for the seven elements of historically based financial statements of state and local governments. The County has considered these definitions in the current CAFR.

## **2. Deposits and Investments**

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

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

**A. Policies**

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

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

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

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

- Limits investments in commercial paper to 25 percent of County available funds,
- Prohibits the placement of more than 35 percent of aggregate cash and investments in any one financial institution,
- Restricts repurchase agreements to those invested in U.S. Government obligations and those of its agents and instrumentalities that are U.S. Government backed and requires a 102 percent margin for underlying collateral,
- Requires that the purchase of securities be executed on a delivery versus payment basis through an independent third party and that securities shall be held by the custodian as evidenced by safekeeping receipts.

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

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

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

The County's written Pension Policy contains the following components:

- To manage custodial credit risk, the Pension Policy requires that custodians and deposit administrators exercise fund safekeeping and securities settlement procedures by custodian participation in one or more appropriate securities depositories (e.g. Depository Trust Company, New York) and, as necessary, correspondent participation in other major depositories (e.g., the Federal Reserve System).
- In order to limit foreign currency exposure, hedging is permitted to protect against currency fluctuations for equity securities denominated in foreign currencies.
- To limit exposure to emerging markets and the associated risks, investments in emerging market equity securities are limited to 15 percent of the international equity portfolio at market value.
- Credit risk is managed by requiring that any single fixed income security be rated investment grade by two of the three major rating agencies. Commercial paper holdings shall be A1 or P1 or Prime.
- To limit concentration of credit risk, holdings of fixed income securities of any one issuer cannot exceed five percent of the total market value of the fixed income portfolio. Debt securities issued by the U.S. Treasury and Federal agencies are not subject to this restriction.
- Interest rate risk is managed by both limiting duration to within 25 percent of the duration of a fixed income portfolio benchmark and limiting holdings of fixed income securities that are subject to significant fluctuations in market value due to changes in interest rates. Holdings of zero coupon bonds are limited to 20 percent of the fixed income portfolio. Range accrual notes, interest only and principal only securities are limited, as a group, to 20 percent of the fixed income portfolio.
- In regard to investments in mutual funds, the Pension Policy recognizes that, given the nature of mutual funds, the diversification limitations regarding both concentrations in individual securities and other objectives and specific requirements may at times be exceeded.

The Pension Policy prohibits the purchase and holding of the following securities:

- buying or short selling securities on margin and/or the use of any other form of leverage, including the lending of securities unless approved in writing by the Board,
- privately placed or otherwise unregistered securities except fixed income securities, issued under SEC Rule 144(a), which are demonstrably marketable and otherwise within guidelines,
- investments in commodities or in any commodity contract, forward or futures trading activities, and all forms of portfolio hedging, excepting the use of stock options and/or currency hedges,
- fixed income investments may not include deep discount or zero coupon (excepting U.S. Treasury) securities, tax exempt, indirectly asset backed or spread-dependent, and stripped or otherwise derivative or synthetic securities,

- the purchase of speculative or “naked” currency contracts undertaken without a demonstrable exposed investment position to be hedged in a specific currency,
- fixed income securities rated below investment grade by two of the three large rating agencies.

**B. Risks****(1) Custodial Credit Risk**

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

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

***Custodial credit risk – non-pension deposits*** – As of December 31, 2007, \$48,696,592 of the County’s bank balance of \$49,838,108 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County’s name	\$ 2,215,528
Uninsured and collateral held by pledging bank’s trust department or agent but not in the County’s name	<u>46,481,064</u>
Total	<u><u>\$ 48,696,592</u></u>

Additionally, \$477,984 of the Cumberland Area Economic Development Corporation’s (CAEDC), a legally separate but blended component unit, bank balances of \$591,270, at December 31, 2007, were exposed to custodial credit risk because these balances are uninsured and collateralized with assets not held in the CAEDC’s name.

***Custodial credit risk – fiduciary fund deposits*** – As of December 31, 2007, \$1,884,437 of the County’s bank balance of its fiduciary funds of \$5,346,934 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County’s name	\$ 53,582
Uninsured and collateral held by pledging bank’s trust department or agent but not in the County’s name	<u>1,830,855</u>
Total	<u><u>\$ 1,884,437</u></u>

The County is named the beneficiary in a \$600,000 irrevocable standby letter of credit from a U.S. agency bank. The letter of credit collateralizes a County agency repurchase account with a deposit balance of \$385,995 at December 31, 2007. The repurchase account is not subject to FDIC insurance.

***Custodial credit risk – Cumberland County Industrial Development Authority deposits*** – As of December 31, 2007, \$122,403 of the Authority’s bank balance of \$322,403 was exposed to custodial risk because it is uninsured and collateralized with securities held by the bank’s agent but not in the Authority’s name.

***Custodial credit risk – Cumberland County Conservation District deposits*** – The District is subject to the County’s aforementioned investment policy. As of December 31, 2007, \$175,000 of the District’s bank

balance of \$342,260 was exposed to custodial credit risk because it is uninsured and collateralized with securities held by the bank's agent but not in the District's name.

***Custodial credit risk – non-pension investments*** – The County is exposed to custodial credit risk at December 31, 2007 through a \$357,779 U.S. Treasury inflation adjusted bond that matures in 2022 which is held by a third party and not registered in the County's name. This security is held in the County's general fund. The County's investment policy does not require that securities held by third parties be registered in the County's name.

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

## **2. Interest Rate Risk**

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

***Interest rate risk – non-pension investments*** – As of December 31, 2007, the County had the following maturities of debt securities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
<b><u>Debt securities</u></b>					
Money market funds	\$ 2,026,852	2,026,852	—	—	—
U.S. Treasury TIPS	357,779	—	—	—	357,779
Total debt securities	\$ 2,384,631	2,026,852	—	—	357,779

Of the non-pension investments above, \$2,026,852 of short-term, liquid investments are classified as cash and cash equivalents, and \$357,779 is classified as investments, on the statement of net assets of the primary government. Savings accounts and time deposits at financial institutions constitute the remaining \$9,869,000 of the total \$10,226,779 of investments reported on the statement of net assets of the primary government.

The County holds \$357,779 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2007. These bonds pay a fixed rate of interest over their term. The bond principal, however, is adjusted for changes in the consumer price index. At maturity, the bond pays the higher of the inflation-adjusted principal or the original principal amount; thereby protecting the holder from adverse changes in the inflation rate.

**Interest rate risk – pension investments** – As of December 31, 2007 the County's pension trust fund had the following investments:

**Pension Trust Fund Investments**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in Years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
<b>Debt securities</b>					
U.S. Treasury bills and GNMA	\$ 4,875,286	—	—	4,274,187	601,099
U.S. agency mortgage-backed securities	30,299,148	—	410,513	10,113,595	19,775,040
Corporate mortgage-backed securities	39,773	—	—	—	39,773
Collateralized mortgage obligations	844,949	—	—	—	844,949
Money market funds	2,166,543	2,166,543	—	—	—
Corporate bonds and notes	12,697,761	—	4,356,732	3,739,533	4,601,496
<b>Total debt securities</b>	<b>50,923,460</b>	<b>2,166,543</b>	<b>4,767,245</b>	<b>18,127,315</b>	<b>25,862,357</b>
<b>Other investments</b>					
Equity mutual funds-U.S.	14,145,241				
Equity mutual fund - international	14,407,249				
Equity securities-U.S.	35,326,692				
<b>Total investments</b>	<b>\$ 114,802,642</b>				

The total pension trust fund investments of \$114,802,642, above, includes \$2,166,543 of short-term, liquid investments that are classified as cash and cash equivalents on the pension trust fund Employees' Retirement Statement of Fiduciary Net Assets.

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

The terms of the following debt securities may cause their fair value to be highly sensitive to interest rate changes. The type, fair value and terms of these debt securities at December 31, 2007 follow:

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

<b>Debt Security</b>	<b>Amount</b>	<b>Interest Terms</b>
U.S. agencies	\$ 455,000	Three month London Interbank Offer Rate (LIBOR) plus 120 basis points, if LIBOR up to 8%. Quarterly calls.
U.S. agencies	1,445,000	Three month LIBOR plus 130 basis points, if LIBOR up to 7%. Quarterly calls.

**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2007**

<b><u>Debt Security</u></b>	<b><u>Amount</u></b>	<b><u>Interest Terms</u></b>
U.S. agencies	877,694	5.45% fixed, as long as six month LIBOR under 7%. Quarterly calls.
U.S. agencies	599,400	7.5% fixed rate as long as six month LIBOR under 7%. Quarterly calls.
U.S. agencies	466,526	8% if the constant maturity swap (CMS) rate for U.S. dollar swaps with a 10 year maturity is greater than or equal to the CMS rate with a 2 year maturity. Quarterly calls.
U.S. agencies	983,900	6% to 7/08, 7% to 7/13, 12% to maturity if LIBOR up to 7%. Quarterly calls.
U.S. agencies	1,467,690	7% fixed, as long as six month LIBOR up to 7.5%. Quarterly calls.
U.S. agencies	900,000	6.25% to 6/10, 7.25% to 6/15, thereafter 15% if LIBOR up to 7%. Quarterly calls.
U.S. agencies	498,800	7% to 9/11, thereafter 15% if six month LIBOR up to 7%. Quarterly calls.
U.S. agencies	522,375	7% to 2/12, thereafter 20% if six month LIBOR up to 7%. Quarterly calls.
U.S. agencies	700,000	7% to 11/12, thereafter 20% if six month LIBOR up to 7%. Quarterly calls.
Corporate	395,000	Previous coupon minus twelve month LIBOR in arrears plus X, where X=4.5% to 12/08, 5% to 12/09, 5.5% to 12/10, 6% to 12/11. Quarterly calls.
Corporate	390,100	Previous coupon minus twelve month LIBOR in arrears plus X, where X=4.5% to 4/08, 6% to 4/09. Quarterly calls.
Corporate	731,973	Previous coupon minus twelve month LIBOR in arrears plus X, where X=5% to 9/08, 6% to 9/09. Quarterly calls.
Corporate	201,730	Previous coupon minus twelve month LIBOR in arrears plus X, where X=5% to 9/08, 6% to 9/09, 7% to 9/10, 8% to 9/11. Quarterly calls.
Corporate	1,299,433	Previous coupon minus twelve month LIBOR in arrears plus X, where X=5% to 10/08, 6% to 10/09. Quarterly calls.
Corporate	150,000	Previous coupon minus six month LIBOR in arrears plus X, where X=4% to 11/08, 5% to 11/09, 6% to 11/10, 7% to 11/11, 8% to 11/12, 9% to 11/13. Semi-annual calls.
Corporate	200,000	Previous coupon minus twelve month LIBOR in arrears plus X, where X=5% to 3/08, 6% to 3/09, 7% to 3/10, 8% to final. Semi-annual calls.
Corporate	322,500	Previous coupon minus six month LIBOR in arrears plus X, where X=5% to 9/09, 11% fixed to 9/10, then X=6% to 9/12, 7% to 9/14. Quarterly calls.
Corporate	60,000	Previous coupon minus six month LIBOR in arrears plus X, where X=5% to 10/08, 6% to 10/09, 7% to 10/10, 8% to 10/11, 9% to 10/12, 10% to final. Quarterly calls.
Corporate	120,400	Previous coupon minus twelve month LIBOR in arrears plus X, where X=3.5% to 6/08, 4% to 6/09, 11% to 12/09, 5% to 12/10, 5.5% to 12/11, 6% to 12/12, 6.5% to 12/13, 7% to 12/14. Quarterly calls.

<b><u>Debt Security</u></b>	<b><u>Amount</u></b>	<b><u>Interest Terms</u></b>
Corporate	617,671	9% until 3/08, thereafter sixty multiplied by the result of the constant maturity swap (CMS) rate for U.S. dollar swaps with a 30 year maturity less the constant maturity swap (CMS) rate for U.S. dollar swaps with a 10 year maturity. Quarterly calls.
Corporate	99,920	Previous coupon minus six month LIBOR in arrears plus X, where X=5% to 10/08, 6% to 10/09, 7% to 10/10, 8% to 10/11, 10% to final. Quarterly calls.
Corporate	167,640	0.85 of the ten year Constant Maturity Treasury Index, minimum interest rate 3.5%, maximum interest rate 9.5%.
Corporate	525,000	7% to 10/11, thereafter 10% if six month LIBOR is from 0%-7%. Quarterly calls.
Corporate	400,000	Three month LIBOR plus 100 basis points to 2/12, thereafter three month LIBOR plus 100 basis points if three month LIBOR is from 0% to 7%. Quarterly calls.
	<b><u>\$14,597,752</u></b>	

The debt securities listed above that incorporate an index, such as LIBOR, in their interest rate terms have reset dates ranging from quarterly to semi-annually.

In addition to the highly interest rate sensitive debt securities identified above, the pension trust fund holds the following debt securities, at December 31, 2007, that are highly sensitive to interest rate changes due to their risk of being called by the issuer or pre-paid by underlying mortgage holders: \$18,545,289 of U.S. agency debt securities that are callable by the issuer, \$2,545,267 of U.S. agency debt securities that are subject to early payment by the mortgage holder, \$39,773 of collateralized mortgage-backed securities that are subject to early payment by the mortgage holder, \$844,949 of collateralized mortgage obligations that are subject to early payment by the mortgage holder, \$1,324,668 of corporate debt securities that are callable by the issuer and \$136,108 of GNMA debt securities that are subject to early payment by the mortgage holder.

### ***(3) Credit Risk***

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

***Credit risk – non-pension investments*** - The County's credit risk on its non-pension investments at December 31, 2007 is as follows:

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>S &amp; P Rating</u></b>
		<b><u>AAA</u></b>
<b><u>Debt securities</u></b>		
Money market funds	\$ 2,026,852	2,026,852
U.S. Treasury TIPS	357,779	357,779
Total debt securities	<b><u>\$ 2,384,631</u></b>	<b><u>2,384,631</u></b>

**Credit risk – pension investments** - Exposure to credit risk in the County pension trust fund at December 31, 2007 is as follows:

<b><u>Debt Investments</u></b>	<b><u>Fair Value</u></b>	<b><u>Quality Ratings*</u></b>				
		<b><u>AAA</u></b>	<b><u>AA</u></b>	<b><u>A</u></b>	<b><u>BBB</u></b>	<b><u>Unrated</u></b>
U.S. Treasury bills and GNMA	\$ 4,875,286	4,739,178	—	—	—	136,108
U.S. agency mortgage-backed securities	30,299,148	27,753,881	—	—	—	2,545,267
Corporate mortgage-backed securities	39,773	39,773	—	—	—	—
Collateralized mortgage obligations	844,949	454,769	390,180	—	—	—
Money market funds	2,166,543	—	—	—	—	2,166,543
Corporate bonds and notes	12,697,761	2,017,383	2,687,683	2,970,101	2,638,141	2,384,453
Total	\$ 50,923,460	35,004,984	3,077,863	2,970,101	2,638,141	7,232,371
		69%	6%	6%	5%	14%

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

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

#### ***(4) Concentration of Credit Risk***

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

***Concentration of credit risk – pension investments*** - At December 31, 2007, the pension trust fund had more than 5 percent of its investment portfolio with the following issuers:

<b><u>Issuer - Debt Securities</u></b>	<b><u>Fair Value</u></b>	<b><u>Pension Trust Fund Investments</u></b>
Federal Home Loan Mortgage Corporation	\$ 11,287,173	9.8%
Federal Home Loan Banks	7,890,178	6.9%
Federal National Mortgage Association	6,598,279	5.8%

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

***(5) Foreign Currency Risk***

***Foreign currency risk – pension investments*** - Foreign currency risk is the risk that the fair market value of such securities will be adversely affected by changes in exchange rates. The pension trust fund is exposed to foreign currency risk through a \$14,407,248 investment at fair value in an international equity mutual fund. The equity fund's objective is to invest at least 80 percent of its net assets in equity securities of companies located in at least three countries other than the U.S.

***(6) Emerging Market Risk***

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

The pension trust fund is exposed to emerging market risk in its \$14,407,248 investment at fair value in an international equity mutual fund that purchases foreign equity securities in foreign markets in the local currency. The mutual fund manages emerging market risk by holding securities from at least 15 countries.

**3. Real Estate Taxes**

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

The County is permitted by the County Code of the Commonwealth of Pennsylvania to levy real estate taxes up to 25 mills on every dollar of adjusted valuation for general County purposes exclusive of the requirements for the payment of interest and principal on bonded debt. For 2007, County real estate taxes were levied at the rate of 2.285 mills for general County purposes. An additional levy was approved by the electorate for the County library system at 0.180 mills. This tax is accounted for as an agency transaction and the revenues are not recognized by the County.

**4. Receivables**

Amounts due from other governments are primarily grants receivable from the Commonwealth of Pennsylvania at December 31, 2007.

The County nursing home has \$4,078,296 in net patient accounts receivable at December 31, 2007, which is primarily a Medical Assistance reimbursement receivable from the Commonwealth of Pennsylvania. The cost reimbursements receivable is subject to audit and final determination by the Department of Public Welfare. The County nursing home recorded an allowance for doubtful accounts of \$444,400 against the patient accounts receivable. Of the County nursing home's patient accounts receivable, \$255,400 is expected to be collected beyond one year.

Taxes receivable is reduced by an allowance for uncollectible accounts of \$440,153 for 2007 which is determined by a review of account status. Of the County's delinquent taxes receivable, \$236,000 is expected to be collected beyond one year.

Court costs and fines receivable are collectible balances on the day they are imposed through the County's court system. The County collects these balances through the Clerk of Court and the probation offices. Court costs and fines receivable as of the end of December 31, 2007 is \$6,426,978. Of that balance, the County has recognized an allowance for doubtful accounts of \$5,818,343. Of the County's court costs and fines receivable, \$175,634 is expected to be collected beyond one year.

## **5. Capital Assets**

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance (as restated)	Additions	Sales and Other Dispositions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,311,087	-	(45,617)	2,265,470
Construction in progress	547,280	2,813,947	(65,758)	3,295,469
Agricultural easements	<u>4,469,193</u>	<u>2,226,205</u>	<u>-</u>	<u>6,695,398</u>
Total capital assets, not being depreciated	<u>7,327,560</u>	<u>5,040,152</u>	<u>(111,375)</u>	<u>12,256,337</u>
Capital assets, being depreciated:				
Buildings and systems	37,280,864	225,130	(25,820)	37,480,174
Improvements other than buildings	54,566	20,681	-	75,247
Machinery and equipment	12,775,307	902,428	(691,641)	12,986,094
Bridges	<u>6,774,381</u>	<u>-</u>	<u>-</u>	<u>6,774,381</u>
Total capital assets being depreciated	<u>56,885,118</u>	<u>1,148,239</u>	<u>(717,461)</u>	<u>57,315,896</u>
Less accumulated depreciation for:				
Buildings and systems	(22,969,562)	(802,798)	24,981	(23,747,379)
Improvements other than buildings	(52,402)	(1,343)	-	(53,745)
Machinery and equipment	(6,397,640)	(1,108,643)	659,072	(6,847,211)
Bridges	<u>(5,465,914)</u>	<u>(94,418)</u>	<u>-</u>	<u>(5,560,332)</u>
Total accumulated depreciation	<u>(34,885,518)</u>	<u>(2,007,202)</u>	<u>684,053</u>	<u>(36,208,667)</u>
Total capital assets, being depreciated, net				
	<u>21,999,600</u>	<u>(858,963)</u>	<u>(33,408)</u>	<u>21,107,229</u>
Governmental activities capital assets, net	<u>\$ 29,327,160</u>	<u>4,181,189</u>	<u>(144,783)</u>	<u>33,363,566</u>

The beginning balance of governmental activities capital assets was restated due to the reclassification of certain assets between categories in order to report fixed assets consistent with the County's most recent asset inventory results.

(continued)

**5. Capital Assets (continued)**

	Beginning Balance	Additions	Sales and Other Dispositions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 15,330	443,877	(15,330)	443,877
Total capital assets, not being depreciated	<u>15,330</u>	<u>443,877</u>	<u>(15,330)</u>	<u>443,877</u>
Capital assets, being depreciated:				
Buildings and systems	26,365,663	449,485	-	26,815,148
Improvements other than buildings	555,717	20,278	-	575,995
Machinery and equipment	<u>13,169,643</u>	<u>451,255</u>	<u>(208,523)</u>	<u>13,412,375</u>
Total capital assets being depreciated	<u>40,091,023</u>	<u>921,018</u>	<u>(208,523)</u>	<u>40,803,518</u>
Less accumulated depreciation for:				
Buildings and systems	(10,989,387)	(978,352)	70	(11,967,669)
Improvements other than buildings	(245,888)	(28,968)	-	(274,856)
Machinery and equipment	<u>(7,898,231)</u>	<u>(1,112,592)</u>	<u>79,282</u>	<u>(8,931,541)</u>
Total accumulated depreciation	<u>(19,133,506)</u>	<u>(2,119,912)</u>	<u>79,352</u>	<u>(21,174,066)</u>
Total capital assets, being depreciated, net	<u>20,957,517</u>	<u>(1,198,894)</u>	<u>(129,171)</u>	<u>19,629,452</u>
Business-type activities capital assets, net	<u>\$ 20,972,847</u>	<u>(755,017)</u>	<u>(144,501)</u>	<u>20,073,329</u>

Business-type activities includes an impairment loss of \$25,124 to recognize an impairment of County owned 800 MHz radios. This loss is reported in the expenses of emergency telephone.

	Beginning Balance	Additions	Sales and Other Dispositions	Ending Balance
<b>Component units:</b>				
Capital assets, being depreciated:				
Machinery and equipment	\$ 140,032	48,481	-	188,513
Total capital assets being depreciated	<u>140,032</u>	<u>48,481</u>	<u>-</u>	<u>188,513</u>
Less accumulated depreciation for:				
Machinery and equipment	<u>(108,226)</u>	<u>(12,905)</u>	<u>-</u>	<u>(121,131)</u>
Total accumulated depreciation	<u>(108,226)</u>	<u>(12,905)</u>	<u>-</u>	<u>(121,131)</u>
Total capital assets, being depreciated, net	<u>31,806</u>	<u>35,576</u>	<u>-</u>	<u>67,382</u>
Component unit capital assets, net	<u>\$ 31,806</u>	<u>35,576</u>	<u>-</u>	<u>67,382</u>

**5. Capital Assets (continued)**

Depreciation expense was charged to the functions/programs of the County in 2007 as follows:

## Governmental activities:

General government	\$ 1,250,999
General government judicial	163,445
Public safety	325,070
Roads and bridge maintenance	94,418
Recycling and solid waste management	39,990
Human services:	
Mental health/mental retardation	23,668
Children and youth	42,517
Food and shelter	8,903
Office of aging	17,662
Other	32,248
Conservation	3,168
Economic development and assistance	5,114
Total depreciation expense - governmental activities	\$ <u>2,007,202</u>

## Business-type activities:

Emergency telephone	\$ 826,723
Hazardous materials protection	91,924
Transportation services	212,112
County nursing home	974,897
Early Learning Center	14,256
Total depreciation expense - business-type activities	\$ <u>2,119,912</u>

**6. Interfund and Transfer Accounts**

The composition of interfund balances at December 31, 2007, follows:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
<b>Governmental funds:</b>		
General fund	\$ 1,390,228	—
Mental health/mental retardation	351,285	—
Children and youth	—	2,838,679
HealthChoices-Cumberland County	—	26,616
Other non-major funds	1,765,673	1,324,127
	<u>3,507,186</u>	<u>4,189,422</u>
<b>Enterprise funds:</b>		
County nursing home	—	294,687
Emergency telephone	807,593	—
Other non-major funds	173,524	4,194
	<u>981,117</u>	<u>298,881</u>
<b>Total primary government</b>	<b><u>\$ 4,488,303</u></b>	<b><u>4,488,303</u></b>

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

Transfers from the general fund are used, in part, to help finance various grant programs in other funds. Additionally, transfers are used to subsidize operations such as the Early Learning Center, emergency telephone and hazardous materials programs. Transfers are also used to move unrestricted funds from the general fund to pay debt service.

The composition of interfund transfers for the year ended December 31, 2007, follow:

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental funds:</b>		
General fund	\$ 1,254,458	9,403,883
Mental health/mental retardation	667,346	3,333
Children and youth	2,195,460	68,995
HealthChoices-Cumberland County	—	3
Other non-major funds	5,173,647	2,374,132
	<u>9,290,911</u>	<u>11,850,346</u>
<b>Enterprise funds:</b>		
Emergency telephone	2,366,449	—
Other non-major funds	197,347	4,361
	<u>2,563,796</u>	<u>4,361</u>
<b>Total primary government</b>	<b><u>\$ 11,854,707</u></b>	<b><u>11,854,707</u></b>

## **7. Short-term Debt**

On September 27, 2007, the County issued a tax revenue anticipation note in the amount of \$9,472,638 related to the Pennsylvania Intergovernmental Medical Assistance Pooling Act. In connection with this Act, municipalities pool funds in order to facilitate medical assistance reimbursement from the Commonwealth of Pennsylvania. On September 27, 2007 the County repaid \$9,472,638 related to this tax revenue anticipation note. There was no outstanding balance at December 31, 2007, related to the issuance of this short-term debt during 2007. Short-term debt activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax revenue anticipation notes	\$ —	9,472,638	9,472,638	—

**8. Long-term Debt**

The following is a summary of the changes in the County's long-term liabilities for the year ended December 31, 2007:

<u>Liability</u>	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds and notes payable:					
Bonds	\$ 19,593,108	-	1,319,270	18,273,838	1,464,321
Notes	2,296,756	-	121,031	2,175,725	125,205
Deferred amount on refundings	(41,364)	-	(4,046)	(37,318)	-
Discount on bonds and notes	(47,668)	-	(3,770)	(43,898)	-
Total bonds and notes payable	21,800,832	-	1,432,485	20,368,347	1,589,526
Sick and vacation	3,247,123	3,150,149	3,003,232	3,394,040	146,064
Capital leases	68,082	-	28,027	40,055	18,512
Governmental activities long-term liabilities	\$ 25,116,037	3,150,149	4,463,744	23,802,442	1,754,102
<b>Business-type activities:</b>					
Bonds and notes payable:					
Bonds	\$ 10,106,892	-	6,885,730	3,221,162	410,679
Notes	13,038,244	6,610,000	673,969	18,974,275	734,795
Deferred amount on refundings	(282,201)	(89,616)	(32,031)	(339,786)	-
Premium (discount) on notes	23,857	(15,583)	1,076	7,198	-
Total bonds and notes payable	22,886,792	6,504,801	7,528,744	21,862,849	1,145,474
Sick and vacation	855,359	1,078,326	1,101,648	832,037	71,574
Workers' compensation	1,579,601	408,081	482,337	1,505,345	591,902
Capital leases	8,378	-	8,378	-	-
Business-type activities long-term liabilities	\$ 25,330,130	7,991,208	9,121,107	24,200,231	1,808,950
<b>Component unit:</b>					
Sick and vacation	\$ 48,406	32,347	33,948	46,805	2,048
Component unit Long-term liabilities	\$ 48,406	32,347	33,948	46,805	2,048

For the governmental activities, bonds and notes are exclusively liquidated by the general fund transferring amounts to the debt service fund for principal and interest payments. Sick and vacation liabilities and capital lease obligations are liquidated by the individual funds to which the related expenditures are charged. Sick and vacation liabilities and capital lease obligations reported in the County's governmental activities are primarily funded by the County's general fund.

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

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

**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2007**

All bonds and notes outstanding at December 31, 2007, are general obligation debt supported by the full faith and credit of the County and are summarized as follows:

	Interest Rate	Final Maturity	Original Issue	Governmental Activities	Business-type Activities
G.O. bond – 2002 issue	2.3% - 4.35%	2017	\$ 9,425,000	2,387,022	3,152,978
G.O. note – 2003 issue	5.857%	2022	715,000	715,000	—
G.O. bond – 2004 issue	2% - 4.55%	2019	7,930,000	5,986,816	68,184
G.O. note – 2005 issue	2.6% - 5%	2021	15,650,000	1,460,725	12,364,275
G.O. bond - 2006 issue	3.7% - 4.3%	2019	9,900,000	9,900,000	—
G.O. notes – 2007 issue	3.6% - 4.1%	2020	6,610,000	—	<u>6,610,000</u>
Long-term debt at December 31, 2007				20,449,563	22,195,437
Deferred amount on refundings				(37,318)	(339,786)
Premium (discount) on notes				<u>(43,898)</u>	<u>7,198</u>
Net long-term debt at December 31, 2007				\$ <u>20,368,347</u>	<u>21,862,849</u>

Of the outstanding balance of the 2002 bond issue at December 31, 2007, \$2,027,591 of the principal has been accounted for in the County nursing home fund and \$1,125,387 of the principal has been accounted for in the emergency telephone fund. Principal of \$2,387,022 has been accounted for in the general fund.

In 2003, the County entered into a \$715,000 long-term installment purchase of an agricultural easement. Total principal has been accounted for in the general fund.

Of the outstanding balance of the 2004 bond issue at December 31, 2007, \$68,184 of the principal has been accounted for in the County nursing home fund and \$5,986,816 has been accounted for in the general fund.

Of the outstanding balance of the 2005 note issue at December 31, 2007, \$5,573,295 of the principal has been accounted for in the County nursing home fund, \$6,790,980 has been accounted for in the emergency telephone fund, and \$1,460,725 has been accounted for in the general fund.

Of the outstanding balance of the 2006 bond issue at December 31, 2007, \$9,900,000 of the principal has been accounted for in the general fund.

In 2007, the County issued general obligation notes, series 2007 to retire the 2001 variable rate bond issue. The refunding resulted in a \$215,472 loss in debt service payments and an economic loss of \$199,536. The economic loss and debt service payments were calculated based on interest rates on the date of the new note issue (June 19, 2007). The County retired the variable rate bond when the current rates and long term rates were relatively flat. There was less than a quarter of a percent between the variable rate and the yield of the general obligation notes on the issue date. Of the outstanding balance of the 2007 notes issue at December 31, 2007, \$5,395,082 has been accounted for in the County nursing home and \$1,214,918 has been accounted for in the emergency telephone fund.

**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2007**

The County's December 31, 2007 net nonelectoral debt limit and combined net nonelectoral debt and net lease rental debt limit are \$410,877,334 and \$560,068,311 respectively.

The annual debt service requirements for the next five years and thereafter, in five-year increments, on long-term debt outstanding as of December 31, 2007, including interest payments, are as follows:

	\$	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
		<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 1,589,526	805,387		1,145,474	838,070
2009	1,156,969	758,988		1,678,031	794,663
2010	1,200,742	718,718		1,729,258	737,962
2011	1,238,688	674,934		1,796,312	677,244
2012	1,287,326	626,430		1,867,674	606,086
2013-2017	9,941,312	2,060,121		7,858,688	2,033,822
2018-2022	4,035,000	320,419		6,120,000	488,395
Total	\$ 20,449,563	5,964,997		22,195,437	6,176,242

**9. Deficit Net Assets**

The County's emergency telephone fund has negative net assets of \$1,131,674 at December 31, 2007. This deficit will be alleviated as the general fund provides subsidies to the emergency telephone fund to make debt service payments that financed the purchase of new 800 MHz radios for other County municipalities and other County offices. To the extent that the emergency telephone fund is unable to generate sufficient cash to fund future debt service payments and fully cover operating costs, additional transfers-in will be provided by the County's general fund.

**10. Leases****A. Operating**

The County leases office equipment and vehicles for various County offices and building space for certain County and magisterial district judge offices. The County's office equipment and vehicle lease terms range from two to five years. The County's building leases contain scheduled rents payable. Building leases have expiration dates extending through 2020. Total expenses for such leases were \$554,757 for the year ended December 31, 2007.

**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2007**

The following is a schedule of future minimum lease payments for operating leases with initial or remaining terms in excess of one year as of December 31, 2007:

<b>Year Ending December 31</b>	<b>Lease Payments</b>
2008	\$ 492,897
2009	464,552
2010	376,372
2011	302,926
2012	220,978
2013-2017	1,125,374
2018-2022	211,260
<b>Total</b>	<b>\$ <u>3,194,359</u></b>

**B. Capital Lease Obligation**

The County is required to make lease payments for capital assets acquired in prior years which consist of vehicles, photocopiers and security equipment. Annual interest rates ranged from 0.89 percent to 10.47 percent on the County's capital leases in effect for the year ended December 31, 2007.

The assets acquired through current capital leases are as follows:

	<b>Governmental Activities</b>
Asset:	
Machinery and equipment	\$ <u>71,969</u>
Less: Accumulated depreciation	<u>(21,724)</u>
Machinery and equipment, net	<b>\$ <u>50,245</u></b>

The following is a schedule of future minimum payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2007:

	<b>Governmental Activities</b>
2008	\$ <u>20,116</u>
2009	<u>14,078</u>
2010	<u>7,892</u>
Total minimum lease payments	<u>42,086</u>
Less amount representing interest	<u>(2,031)</u>
Present value of net minimum lease payments	<b>\$ <u>40,055</u></b>

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

As part of the County's acquisition of the 310 Allen Road, Carlisle property on September 29, 2006, the County agreed to lease to the seller 10,000 square feet of an outbuilding for temporary document storage. This lease ends December 31, 2008 and provides for annual rent of \$45,000 in 2008. The cost and accumulated depreciation of the leased space at December 31, 2007 was \$254,760 and \$7,644, respectively.

**11. Cumberland County Retirement Plan****A. Plan Description**

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

As of December 31, 2007, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	412
Terminated plan members entitled to but not yet receiving benefits	105
Active plan members	<u>1,109</u>
Total	<u>1,626</u>

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

**B. Summary of Significant Accounting Policies**

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

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

**C. Funding Policy and Contributions**

As a condition of participation, employees are required to contribute five percent of their salary as stipulated in the County Pension Law. Employees may elect to contribute up to 15 percent of their salary. Interest is

**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2007**

credited to the employee's account each year at the annual rate of 5.5 percent as voted upon by the County Retirement Board.

For 2007, the County's annual pension cost of \$3,018,632 was equal to the County's required and actual contribution. The required contribution was determined as part of the January 1, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected salary increases due to inflation of three percent and (c) projected salary increases due to seniority/merit increases of 4.25 percent in 2007, increased by a 0.25 percent increment over the next year to a maximum of 4.5 percent attained for 2009 and later years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007, was 27 years.

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

Three year trend information for the Cumberland County Retirement Plan is as follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$2,421,626	100%	\$0
12/31/06	2,611,643	100%	0
12/31/07	3,018,632	100%	0

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

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets	(3) Actuarial Accrued Liability- Entry Age	(4) Unfunded Actuarial Accrued Liability	(5) Funded Ratio (2/3)	(6) Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4/6)
1/1/06	\$ 91,003,246	\$103,853,132	\$12,849,886	87.6%	\$39,731,561	32.3%
1/1/07	98,379,217	113,652,216	15,272,999	86.6%	43,083,443	35.4%
1/1/08	114,308,129	124,585,352	10,277,223	91.8%	45,483,821	22.6%

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

Historical trend information for the Plan is presented as required supplementary information on page 81 and 82 of this report.

#### **12. Litigation**

The County is involved in several lawsuits arising in the normal course of business. It is the County solicitor's opinion that the aggregate amount of potential claims not covered by insurance resulting from actions against the County would not materially affect the financial position of the County at December 31, 2007.

**13. Commitments and Contingencies****Grants**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

**14. Self Insurance****Workers' Compensation**

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

All County employees are covered by the workers' compensation fund. The County funds the program by making payments to the workers' compensation fund from various County departments/funds based upon estimates of the amounts needed to pay prior and current year claims. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Liabilities for claims do not include non-incremental claims adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors.

Changes in the fund's claims liability (net of excess insurance) for the years ended December 31, 2007 and December 31, 2006, were:

	<b>Beginning of Year Liability</b>	<b>Provision for Claims</b>		<b>Claim Payments</b>		<b>End of Year Liability</b>
		<b>Current Year</b>	<b>Prior Years</b>	<b>Current Year</b>	<b>Prior Years</b>	
2007	\$ 1,579,601	578,105	(170,024)	67,078	415,259	1,505,345
2006	\$ 1,616,789	457,691	(86,467)	79,177	329,235	1,579,601

**15. Non-Recourse Debt****A. Cumberland County Municipal Authority (MA)**

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

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The MA has no on-going obligation for the bonds and does not include the debt in its financial statements.

As of December 31, 2007, there were 17 series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$525,000,000.

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

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

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

The IDA, as a result of the assignments, has no on-going obligation for the debt and does not include the debt or related installment sales agreements in the financial statements of its operating fund. As of December 31, 2007, the projects had \$64,521,449 in outstanding principal balances.