

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 aggregate 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, 2008, 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 aggregate discretely presented component units and the Cumberland Area Economic Development Corporation, a blended component unit which represents less than 3% 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2008, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in conformity with US generally accepted accounting principles.

As discussed in Notes 11 and 12, the County adopted Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and certain required provisions of GASB Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2009 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, Employee's Retirement Plan and other Post Employment Benefits Schedules of Funding Progress and the Employee's Retirement Plan Schedule of Employer's Contributions on pages 15 through 27 and 85 through 93 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 section 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 section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst & Young LLP

June 5, 2009

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, 2008. 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 7 of this report.

Financial Highlights

- The assets of Cumberland County exceeded its liabilities at the close of the year ended December 31, 2008 by \$59,995,464 (*net assets*). Of this amount, \$14,063,713 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$6,778,942.
- As of the close of the year ended December 31, 2008, Cumberland County's governmental funds reported combined ending fund balances of \$50,023,588 an increase of \$16,715,334 in comparison to the prior year. Approximately 96 percent of the total amount \$47,931,249 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of December 31, 2008, unreserved fund balance for the general fund was \$22,766,147. Of this balance \$4,153,035 is designated for capital projects, farmland preservation, prison canteen, landfill closure, and future debt service payments.
- Cumberland County's total general obligation debt increased by \$15,771,618. The County's debt increased due to the issuance of the 2008 general obligation bonds for \$18,500,000. The increase to the debt was offset by scheduled principal payments. The 2008 bonds will finance phase I of the prison expansion, the new public safety building, and related 911 infrastructure costs.
- The County's bond rating was upgraded to AAA.
- The County continued its progress in performance management to ensure strong fiscal management and promote long-term planning.
- Wireless funding of the 911 center reduced the required subsidy by about \$1.6 million.
- The County preserved 924 acres of premium farmland in 2008. The total preserved farmland is 13,480 acres.
- Open Space's land partnership program was completed in 2008. The 2008 program highlights are 106 acres of critical ridgeline habitat preserved, improvements for 13 municipal parks and trail projects within the County, and updates to 9 local planning documents.
- The County began phase I of the prison expansion project and the Public Safety building project.
- The County began an analysis of criminal justice planning for community correction strategies.

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 30 thru 32 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 34 and 36 of this report.

The County maintains 21 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, Cumberland County HealthChoices fund and the capital projects fund, which are considered to be major funds. Data from the other governmental funds is combined into a single, aggregated presentation entitled "other non-major funds". 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 33 and 35 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 37 thru 40 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 41 and 42 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 thru 83 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 and other post employment 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 general fund and each major special revenue fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 85 thru 93 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 \$59,995,464 at the close of the most recent calendar year.

Cumberland County's Net Assets

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Other assets	\$ 68,456,278	51,028,082	16,124,976	14,533,739	84,581,254	65,561,821
Capital assets	37,810,994	33,363,566	19,479,012	20,073,329	57,290,006	53,436,895
Total assets	106,267,272	84,391,648	35,603,988	34,607,068	141,871,260	118,998,716
Liabilities:						
Long-term liabilities	39,697,023	23,802,442	24,213,614	24,200,231	63,910,637	48,002,673
Other liabilities	15,187,662	15,600,766	2,777,497	2,178,755	17,965,159	17,779,521
Total liabilities	54,884,685	39,403,208	26,991,111	26,378,986	81,875,796	65,782,194
Net Assets:						
Invested in capital assets, net of related debt	21,107,189	18,992,768	(1,301,131)	(1,495,109)	19,806,058	17,497,659
Restricted	26,125,693	12,011,798	-	-	26,125,693	12,011,798
Unrestricted	4,149,705	13,983,874	9,914,008	9,723,191	14,063,713	23,707,065
Total net assets	\$ 51,382,587	44,988,440	8,612,877	8,228,082	59,995,464	53,216,522

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.

Forty-four percent of the county's net assets are legally restricted (\$26,125,693). The remaining balance of *unrestricted net assets* (\$14,063,713) may be used to meet the government's ongoing obligations to citizens and creditors.

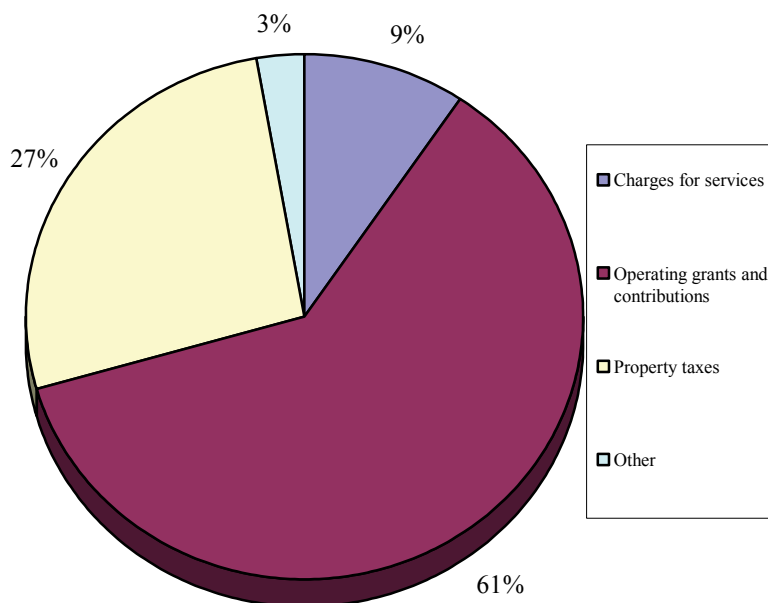
At the end of the current fiscal year, Cumberland County is able to report positive balance in all three categories of net assets for the government as a whole and for its separate governmental activities and business-type activities, with the exception of Emergency Telephone. As part of the 800 MHz 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 negative net assets. The same held true for the prior fiscal year.

Cumberland County's Change in Net Assets

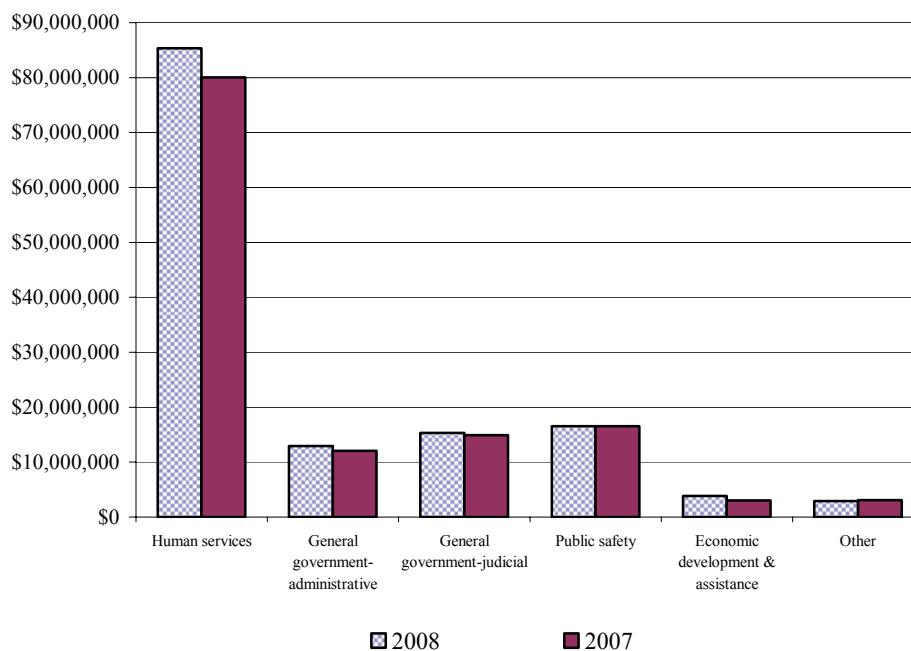
	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 13,613,966	12,843,544	26,836,413	27,045,921	40,450,379	39,889,465
Operating grants and contributions	88,150,175	83,661,942	4,211,357	2,409,138	92,361,532	86,071,080
Capital grants and contributions	169,564	404,518	203,426	265,793	372,990	670,311
General revenues:						
Property taxes	38,319,951	37,534,225	-	-	38,319,951	37,534,225
Other taxes	1,983,831	1,787,023	-	-	1,983,831	1,787,023
Unrestricted investment earnings	1,897,431	2,642,631	379,485	332,071	2,276,916	2,974,702
Total revenues	144,134,918	138,873,883	31,630,681	30,052,923	175,765,599	168,926,806
Expenses:						
General government-administrative	12,914,833	12,084,842	-	-	12,914,833	12,084,842
General government-judicial	15,300,757	14,884,695	-	-	15,300,757	14,884,695
Public safety	16,524,566	16,554,754	-	-	16,524,566	16,554,754
Roads and bridge maintenance	479,261	952,524	-	-	479,261	952,524
Recycling and solid waste management	449,387	535,267	-	-	449,387	535,267
Human services	85,317,235	80,058,280	-	-	85,317,235	80,058,280
Culture and recreation	106,326	81,430	-	-	106,326	81,430
Conservation	1,047,706	882,688	-	-	1,047,706	882,688
Community redevelopment and housing	217,028	245,888	-	-	217,028	245,888
Economic development and assistance	3,870,456	3,026,549	-	-	3,870,456	3,026,549
Interest on long-term debt	1,130,803	846,026	-	-	1,130,803	846,026
Indirect expenses	(494,329)	(432,428)	494,329	432,428	-	-
Claremont Nursing and Rehabilitation Center	-	-	22,463,389	21,715,212	22,463,389	21,715,212
Early Learning Center	-	-	516,737	487,679	516,737	487,679
Emergency telephone	-	-	5,277,951	5,163,736	5,277,951	5,163,736
Hazardous materials protection	-	-	258,893	278,299	258,893	278,299
Transportation services	-	-	2,305,882	2,122,585	2,305,882	2,122,585
Workers' compensation	-	-	805,447	800,216	805,447	800,216
Total expenses	136,864,029	129,720,515	32,122,628	31,000,155	168,986,657	160,720,670
Increase (decrease) in net assets before transfers	7,270,889	9,153,368	(491,947)	(947,232)	6,778,942	8,206,136
Transfers	(876,742)	(2,559,625)	876,742	2,559,625	-	-
Increase in net assets	6,394,147	6,593,743	384,795	1,612,393	6,778,942	8,206,136
Net assets, beginning	44,988,440	38,394,697	8,228,082	6,615,689	53,216,522	45,010,386
Net assets, ending	\$ 51,382,587	44,988,440	8,612,877	8,228,082	59,995,464	53,216,522

Governmental activities. The following charts graphically depict the sources of revenue and functional expenses of governmental activities for the fiscal year ended December 31, 2008:

Revenues by Source - Governmental Activities



Expense Comparison by Activity - Governmental Activities

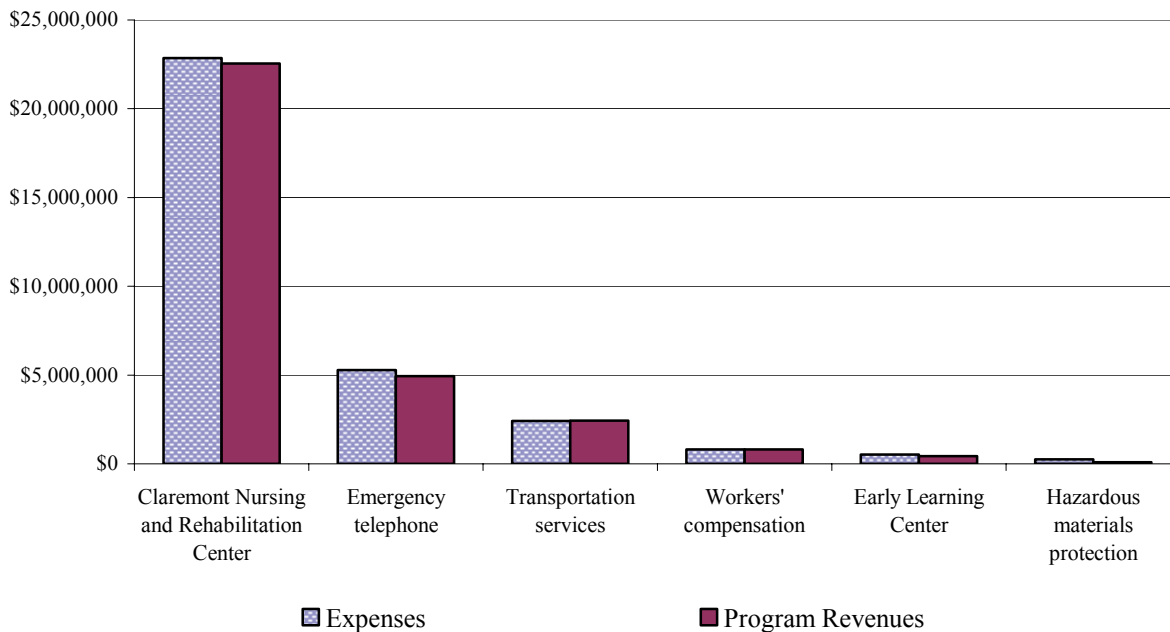


Governmental activities increased Cumberland County's net assets by \$6,394,147. The majority of this increase is caused by cost saving measures and increased wireless funding in Emergency Telephone which required less general fund subsidy. The primary changes in revenues and expenses are:

- Property tax increased by \$785,726. This growth is due to new construction and renovations of existing property.
- Charges for services increased \$770,422. The biggest increase is mainly due to an increase in court costs in the Clerk of Courts Office and increased fees in Weights and Measures.
- Unrestricted investment earnings decreased \$745,200. Interest rates declined and were substantially lower in 2008. The County continued to meet our benchmark targets.
- Operating Grants and Contributions increased \$4,488,233 due mainly to four major grants/programs.
 - Mental Health/Mental Retardation (MH/MR) grants increased \$2,789,423 mainly due to an increased Mental Retardation allocation.
 - HealthChoices increased \$1,174,125 due to increased capitation rates and increased member days.
 - The Community Development Block Grant (CDBG) increased \$681,347. This grant is a multi-year grant and the revenues vary based on the project/expense completion over the grant period. Fluctuations from year to year are common.
- MH/MR and HealthChoices expenses increased by \$2,609,629 and \$1,164,211, respectively, due to the increase in operating grants as explained above.
- Children and Youth expenses increased \$767,725 mostly due to increases in out of home placements. Children and Youth policy is to use the least restrictive placements while meeting the best interest of the child.
- Economic Development expenses increased \$843,907 mainly due to the CDBG grant as described above in Grants and Contributions.
- Transfers decreased \$1,682,883 due to a decrease in Emergency Telephone subsidy as a direct result of the wireless grant revenue.

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, 2008:

Expenses and Program Revenues - Business-type Activities



Business type activities increased Cumberland County's net assets by \$384,795. The primary changes in revenues and expenses are:

- Operating Grants and Contributions increased \$1,802,219 mostly due to the wireless grant revenues. The County was reimbursed for prior expenses during the current grant year.
- Transfers decreased \$1,682,883 mainly due to a decrease in Emergency Telephone subsidy. Most of the decrease is related to the wireless grant revenues.

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 \$50,023,588 and an increase of \$16,715,334 in comparison to the prior year. Approximately 96 percent of the total amount (\$47,931,249) constitutes *unreserved fund balance*, which is available for spending at the

County'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:

- offender supervision (\$598,121)
- criminal investigation (\$257,138)
- Row office automation (\$126,413)
- Register of Wills Act 34 (\$64,350)
- prepaid items (\$988,657)
- criminal justice planning (\$2,219)
- Coroner-Act 122 (\$55,441)

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 \$22,766,147 while total fund balance was \$24,858,486. 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 52 percent of total general fund expenditures, while total fund balance represents 57 percent of general fund expenditures.

The fund balance of Cumberland County's general fund increased by \$2,586,679 during the current year. Key factors in this growth are as follows:

- Several cost savings measures and revenue enhancements were implemented in 2008.
- Emergency Telephone's subsidy decreased substantially due to wireless grant funding. The transfer decreased by about \$1.6 million from 2007 and directly impacted the General Fund's fund balance.

The fund balance of Cumberland County's capital projects fund increased by \$13,696,265 due to the issuance of the 2008 general obligation bonds for phase I prison renovations and the public safety building.

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 \$608,507 at December 31, 2008. 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.

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 amounts 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) increased \$82,500 for 2008. The following is a list of the adjustments:

DCED Shared Municipal Services Grant	\$77,500
Project Safe Neighbor Grant	\$ 5,000

Actual general fund revenues (including other financing sources) received were \$720,140 over the amended budget most of which is attributable to County Charges (\$643,851). County charges increased for multiple reasons: reimbursement from the municipalities for gypsy moth spraying, Magisterial District Judge revenue, and the uniform parcel identifier ordinance became effective October 1, 2008.

The general fund budgeted expenditures (including other financing uses) increased \$120,000 for 2008. The following is a list of the adjustments:

DCED Shared Municipal Services Grant	\$115,000
Project Safe Neighbor Grant	\$ 5,000

Actual general fund expenditures (including other financing uses) were under the final budget by \$4,910,353. The major items under budget were:

Subsidies	\$1,837,096
Pooled reserves	\$ 650,374
Prison	\$ 340,467
County buildings	\$ 333,708
Farmland preservation	\$ 226,400

There are several reasons for the under budget situation. Subsidies were under budget because emergency telephone received wireless grant revenue which covered prior year expenses. The Pooled reserves budget was not fully utilized because the funds were not needed for contingent events. The Prison's contingency for prison medical catastrophic cost was under budget as well as several prison positions were delayed due to the renovations. County buildings incurred lower than expected utility costs and had several maintenance projects come in under budget. Farmland preservation was under budget in the general fund because the farms that were planned out of the current year allocation were not finalized in 2008. Cost savings measures were taken during the year throughout the County and most departments came in under budget and accounted for approximately \$2,000,000 of the under budget situation. As a direct result of the cost savings measures, very few departments requested use of the pooled reserves.

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, 2008, amounted to \$57,290,006 (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 seven percent (a 13 percent increase for governmental activities and a three percent decrease for business-type activities).

Cumberland County's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,265,470	2,265,470	-	-	2,265,470	2,265,470
Buildings and systems	13,462,112	13,732,795	14,278,141	14,847,479	27,740,253	28,580,274
Improvements other than buildings	19,298	21,502	271,234	301,139	290,532	322,641
Machinery and equipment	6,585,987	6,138,883	3,748,205	4,480,834	10,334,192	10,619,717
Bridges	4,045,385	1,214,049	-	-	4,045,385	1,214,049
Construction in progress	4,472,812	3,295,469	1,181,432	443,877	5,654,244	3,739,346
Agricultural easements	6,959,930	6,695,398	-	-	6,959,930	6,695,398
Total	\$ 37,810,994	33,363,566	19,479,012	20,073,329	57,290,006	53,436,895

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

- The design and construction of the prison expansion, which will eventually increase capacity of the facility by 40 percent or 160 additional beds, increased construction in progress by \$2,782,702.
- The design of a new public emergency operations center increased construction in progress by \$579,386.
- The Recycling and Waste Authority purchased an industrial grade grinder for \$351,873.
- Computer hardware and software of \$473,875 was purchased to supplement the County's technological needs.
- Renovations and repair to the old courthouse, which included the replacement of the roof, heating and cooling system and restoration of the original brownstone, cost the County \$419,144.

Additional information on Cumberland County's capital assets can be found in Note 5 on pages 67 thru 69 of this report.

Debt Administration. At the end of the current fiscal year, Cumberland County had net outstanding bonded debt of \$37,939,713. The County's net general obligation notes total \$20,063,101. 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, 2008 and 2007 were:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 33,821,936	18,190,067	4,117,777	3,136,929	37,939,713	21,326,996
General Obligation Notes	2,052,806	2,178,280	18,010,295	18,725,920	20,063,101	20,904,200
Total	\$ 35,874,742	20,368,347	22,128,072	21,862,849	58,002,814	42,231,196

Cumberland County's general obligation debt increased by \$15,771,618. In 2008, the County issued \$18,500,000 of general obligation bonds, series 2008. The projects covered with this bond issue include phase I prison renovations, public safety building, and Emergency Telephone infrastructure. The new debt created an annual increase in debt service payments of about \$1,345,000.

Principal payments paid in 2008 were \$2,735,000.

Cumberland County's rating was increased to "AAA" from Standard and Poor's for general obligation debt.

The current debt limitation for Cumberland County is \$422,800,536 which is significantly in excess of Cumberland County's outstanding general obligation debt.

In 2010, Cumberland County is planning on issuing general obligation bonds for Phase II of the prison expansion project.

Additional information on Cumberland County's long-term debt can be found in note 8 on pages 72 thru 74 of this report.

Economic Factors and Next Year's Budget

Economic Conditions in 2008

Residents of Cumberland County benefited from one of the lowest unemployment levels in the Commonwealth throughout 2008. This recurring trend is expected to continue. Cumberland County's December unemployment rate was 5.0% while the statewide and national rates were 6.7% and 7.2%, 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 three percent of assessed values as of December 31, 2008.

Highlights of the County's initiatives in the 2009 budget include:

- Phase I renovations for the County Prison.
- Begin construction of a new public safety building.
- Farmland preservation/open space.
- Increased County retirement contributions based on market conditions.
- Property tax increase of 5%.
- New employee health insurance plans.
- Continue performance management process.

The County is in an excellent position and is taking a proactive stance in the current economic conditions in order to preserve the County's financial position.

During the budget process the Commissioners directed the Finance Office and Senior Management Team to work with every County department and elected office to identify additional options to reduce costs across the full spectrum of County operations. These efforts will generate a cost management initiative that targets funds toward priority services while achieving at least \$5,000,000 in cost reduction over the course of the 2009 and 2010 budget.

The County is seeing a slight increase in the amount of current year tax levy that is not collected in the current year. The County still remains within the high range of tax collections when compared to other counties.

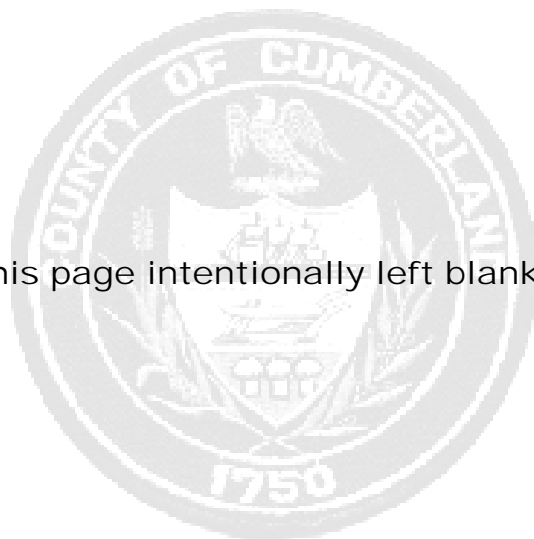
An array of projects have been placed on hold or cancelled altogether due to the economic downturn. The County is not deferring any capital or maintenance that is required to keep the County facilities up to par.

The General Fund ended 2008 with an unreserved, undesignated fund balance of \$18.6 million. At the end of 2009 the County is estimating an unreserved, undesignated fund balance of about \$14.9 million.

Requests for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Cumberland County Controller, One Courthouse Square, Room 207 Carlisle, PA 17013.

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Basic Financial Statements

STATEMENT OF NET ASSETS

December 31, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Conservation District	Industrial Development Authority
ASSETS					
Cash and cash equivalents	\$ 32,761,256	7,505,636	40,266,892	252,204	137,629
Investments	3,470,710	3,000,000	6,470,710	—	164,698
Receivables (net of allowance):					
Taxes	2,109,591	—	2,109,591	—	—
Due from other governments	6,123,456	265,561	6,389,017	82,443	—
Accounts receivable	803,197	4,813,071	5,616,268	—	738
Court costs and fines receivable	1,027,983	—	1,027,983	—	—
Notes receivable	—	—	—	—	115,377
Due from component units	22,147	—	22,147	—	—
Internal balances	1,433,512	(1,433,512)	—	—	—
Prepaid items	1,013,319	165,918	1,179,237	—	—
Net pension asset	442,761	199,123	641,884	5,345	—
Deferred charges	350,375	277,463	627,838	—	—
Restricted assets:					
Cash and cash equivalents	18,859,148	1,331,716	20,190,864	—	—
Capital assets not being depreciated:					
Land	2,265,470	—	2,265,470	—	—
Construction in progress	4,472,812	1,181,432	5,654,244	—	—
Agricultural easements	6,959,930	—	6,959,930	—	—
Capital assets net of accumulated depreciation:					
Buildings and systems	13,462,112	14,278,141	27,740,253	—	—
Improvements other than buildings	19,298	271,234	290,532	—	—
Machinery and equipment	6,585,987	3,748,205	10,334,192	55,196	—
Bridges	4,045,385	—	4,045,385	—	—
Other assets	38,823	—	38,823	—	—
Total assets	106,267,272	35,603,988	141,871,260	395,188	418,442

(Continued)

STATEMENT OF NET ASSETS*December 31, 2008***COUNTY OF CUMBERLAND, PENNSYLVANIA****LIABILITIES**

Accounts payable and other current liabilities	9,305,187	971,424	10,276,611	7,363	9,706
Accrued payroll	1,259,037	555,656	1,814,693	12,044	—
Due to primary government	—	—	—	22,146	—
Due to other governments	582,910	—	582,910	—	—
Accrued interest payable	234,756	145,590	380,346	—	—
Unearned revenues	2,936,746	843,576	3,780,322	22,181	—
Contributions due to the pension fund	647,228	—	647,228	—	—
Funds held as fiduciary	221,798	261,251	483,049	—	—
Noncurrent liabilities:					
Due in less than one year:					
Capital lease payable	21,613	—	21,613	—	—
General obligation bonds payable	1,437,302	782,698	2,220,000	—	—
General obligation notes payable	125,205	1,149,795	1,275,000	—	—
Sick and vacation accrual	299,518	86,855	386,373	3,103	—
Workers' compensation claims payable	—	375,795	375,795	—	—
Due in more than one year:					
Capital lease payable	16,974	—	16,974	—	—
General obligation bonds payable	32,384,634	3,335,079	35,719,713	—	—
General obligation notes payable	1,927,601	16,860,500	18,788,101	—	—
Arbitrage payable	63,442	—	63,442	—	—
Sick and vacation accrual	3,299,980	744,266	4,044,246	48,186	—
Net OPEB obligation	120,754	55,679	176,433	1,615	—
Workers' compensation claims payable	—	822,947	822,947	—	—
Total liabilities	<u>54,884,685</u>	<u>26,991,111</u>	<u>81,875,796</u>	<u>116,638</u>	<u>9,706</u>

NET ASSETS

Invested in capital assets, net of related debt	21,107,189	(1,301,131)	19,806,058	55,196	—
Restricted net assets for:					
Capital projects	17,743,635	—	17,743,635	—	—
Conservation	1,817,209	—	1,817,209	—	—
Community redevelopment and housing	39,241	—	39,241	—	—
Economic development	1,197,378	—	1,197,378	—	—
Human services	2,341,411	—	2,341,411	—	—
Judicial services	283,227	—	283,227	—	—
Public safety	944,791	—	944,791	—	—
Records improvement	911,863	—	911,863	—	—
Roads and bridges	846,938	—	846,938	—	—
Unrestricted	4,149,705	9,914,008	14,063,713	223,354	408,736
Total net assets	<u>\$ 51,382,587</u>	<u>8,612,877</u>	<u>59,995,464</u>	<u>278,550</u>	<u>408,736</u>

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

STATEMENT OF ACTIVITIES

For the year ended December 31, 2008

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
Primary government:										
Governmental activities:										
General government - administrative	\$ 12,914,833	(1,469,514)	3,861,945	245,575	—	(7,337,799)	—	(7,337,799)	—	—
General government - judicial	15,300,757	74,199	4,182,989	2,497,334	6,832	(8,687,801)	—	(8,687,801)	—	—
Public safety	16,524,566	7,362	3,155,752	1,243,092	65,745	(12,067,339)	—	(12,067,339)	—	—
Roads and bridge maintenance	479,261	22,222	29,729	951,691	96,987	576,924	—	576,924	—	—
Recycling and waste management	449,387	41,823	128,166	470,419	—	107,375	—	107,375	—	—
Human services:										
Mental health/mental retardation	35,708,717	233,164	274,307	34,853,233	—	(814,341)	—	(814,341)	—	—
HealthChoices-Cumberland County	22,892,241	—	—	22,881,948	—	(10,293)	—	(10,293)	—	—
Children and youth	13,327,513	210,255	452,687	10,642,965	—	(2,442,116)	—	(2,442,116)	—	—
Food and shelter	4,554,398	103,632	520,386	4,486,184	—	348,540	—	348,540	—	—
Office of aging	4,585,368	178,882	135,156	4,336,567	—	(292,527)	—	(292,527)	—	—
Other	4,248,998	103,646	428,567	3,104,052	—	(820,025)	—	(820,025)	—	—
Culture and recreation	106,326	—	10,942	45,119	—	(50,265)	—	(50,265)	—	—
Conservation	1,047,706	—	59,533	165,986	—	(822,187)	—	(822,187)	—	—
Community redevelopment and housing	217,028	—	227,398	—	—	10,370	—	10,370	—	—
Economic development and assistance	3,870,456	—	146,409	2,226,010	—	(1,498,037)	—	(1,498,037)	—	—
Interest on long-term debt	1,130,803	—	—	—	—	(1,130,803)	—	(1,130,803)	—	—
Total governmental activities	137,358,358	(494,329)	13,613,966	88,150,175	169,564	(34,930,324)	—	(34,930,324)	—	—
Business-type activities:										
County nursing home	22,463,389	392,552	22,536,429	10,718	—	—	(308,794)	(308,794)	—	—
Early Learning Center	516,737	—	399,429	34,016	1,283	—	(82,009)	(82,009)	—	—
Emergency telephone	5,277,951	—	1,944,338	3,002,387	—	—	(331,226)	(331,226)	—	—
Hazardous materials protection	258,893	—	50,708	30,112	3,505	—	(174,568)	(174,568)	—	—
Transportation services	2,305,882	101,777	1,100,062	1,134,124	198,638	—	25,165	25,165	—	—
Workers' compensation	805,447	—	805,447	—	—	—	—	—	—	—
Total business-type activities	31,628,299	494,329	26,836,413	4,211,357	203,426	—	(871,432)	(871,432)	—	—
Total primary government	\$ 168,986,657	—	40,450,379	92,361,532	372,990	(34,930,324)	(871,432)	(35,801,756)	—	—
Component units:										
Conservation District	\$ 907,842		124,220	669,256		—	—	—	(114,366)	—
Industrial Development Authority	41,770		9,215	—		—	—	—	—	(32,555)
Total component units	\$ 949,612		133,435	669,256		—	—	—	(114,366)	(32,555)
General revenues:										
Real estate taxes						38,319,951	—	38,319,951	—	—
Per capita taxes						638,640	—	638,640	—	—
Hotel taxes						1,345,191	—	1,345,191	—	—
Unrestricted investment earnings						1,897,431	379,485	2,276,916	11,982	3,275
Transfers						(876,742)	876,742	—	—	—
Total general revenues and transfers						41,324,471	1,256,227	42,580,698	11,982	3,275
Change in net assets						6,394,147	384,795	6,778,942	(102,384)	(29,280)
Net assets, beginning of year						44,988,440	8,228,082	53,216,522	380,934	438,016
Net assets, end of year	\$					51,382,587	8,612,877	59,995,464	278,550	408,736

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

BALANCE SHEET**Governmental Funds***December 31, 2008***COUNTY OF CUMBERLAND, PENNSYLVANIA**

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices- Cumberland County	Capital Projects	Other Non-major Funds	Total
Assets							
Cash and cash equivalents	\$ 21,567,419	6,905,248	300	110,353	—	4,177,936	32,761,256
Investments	448,584	—	—	—	—	3,022,126	3,470,710
Receivables (net of allowance):							
Taxes	2,037,940	—	—	—	—	71,651	2,109,591
Due from other governments	819,819	108,150	3,172,872	—	—	2,022,615	6,123,456
Accounts receivable	180,078	7,677	—	—	—	615,442	803,197
Court costs and fines receivable	102,411	—	—	—	—	—	102,411
Due from other funds	3,840,462	—	—	—	—	1,456,269	5,296,731
Due from component units	23,166	—	—	—	—	—	23,166
Prepaid items	988,657	—	638	—	—	24,024	1,013,319
Restricted cash	—	—	—	—	18,859,148	—	18,859,148
Other assets	38,952	—	—	—	—	—	38,952
Total assets	\$ 30,047,488	7,021,075	3,173,810	110,353	18,859,148	11,390,063	70,601,937
Liabilities and fund balances							
Liabilities:							
Accounts payable	\$ 1,421,824	4,313,631	1,171,174	53,698	1,109,706	1,235,154	9,305,187
Accrued liabilities and withholdings	951,595	65,173	81,470	—	2,613	158,186	1,259,037
Due to other funds	—	100,910	1,915,612	32,114	8,146	2,186,689	4,243,471
Due to other governments	464,352	—	—	—	—	—	464,352
Deferred taxes	1,436,311	—	—	—	—	—	1,436,311
Deferred revenue	53,389	2,541,361	5,554	24,541	—	376,120	3,000,965
Contributions due to pension fund	647,228	—	—	—	—	—	647,228
Funds held as fiduciary	214,303	—	—	—	—	7,495	221,798
Total liabilities	5,189,002	7,021,075	3,173,810	110,353	1,120,465	3,963,644	20,578,349
Fund balances:							
Reserved for:							
Prepaid items	988,657	—	—	—	—	—	988,657
Row office automation	126,413	—	—	—	—	—	126,413
Register of Wills-Act 34	64,350	—	—	—	—	—	64,350
Coroner - Act 122	55,441	—	—	—	—	—	55,441
Offenders' supervision	598,121	—	—	—	—	—	598,121
Criminal investigation	257,138	—	—	—	—	—	257,138
Criminal justice planning	2,219	—	—	—	—	—	2,219
Unreserved:							
Designated:							
Future capital projects	2,500,000	—	—	—	—	—	2,500,000
Future debt service arbitrage payments	225,000	—	—	—	—	—	225,000
Prison canteen	107,990	—	—	—	—	—	107,990
Farmland preservation	692,620	—	—	—	—	—	692,620
Landfill closure	627,425	—	—	—	—	—	627,425
Undesignated, reported in:							
General fund	18,613,112	—	—	—	—	—	18,613,112
Special revenue funds	—	—	—	—	—	7,426,419	7,426,419
Capital project funds	—	—	—	—	17,738,683	—	17,738,683
Total fund balances	24,858,486	—	—	—	17,738,683	7,426,419	50,023,588
Total liabilities and fund balances	\$ 30,047,488	7,021,075	3,173,810	110,353	18,859,148	11,390,063	70,601,937

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, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

Total fund balances-governmental funds \$ 50,023,588

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. 37,810,994

Certain receivables are not available to pay for current period
expenditures and, therefore, are deferred in the funds. 2,307,209

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 457,420

Net pension asset 442,761

Internal service fund used by management to charge the costs of
the self-insured workers' compensation to individual funds. 379,109

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. 330

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 (33,931,267)

Notes payable (2,050,520)

Sick and vacation payable (3,599,498)

Capital lease payable (38,587)

Arbitrage payable (63,442)

Other post employment benefit obligations (120,754)

Interest accrued on long-term liabilities is not due and
payable in the current period and, therefore is not reported
in the funds. (234,756)

Net assets of governmental activities \$ 51,382,587

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, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	General Fund	Mental Health/ Mental Retardation	Children and Youth	HealthChoices- Cumberland County	Capital Projects	Other Non-major Funds	Total
Revenues:							
Taxes	\$ 38,925,326	—	—	—	—	1,345,191	40,270,517
Licenses and permits	101,762	—	—	—	—	—	101,762
Grants	4,504,474	34,843,942	10,642,442	22,881,948	—	15,172,312	88,045,118
County charges	8,235,277	131,609	452,687	—	—	2,267,380	11,086,953
Court costs, fines and forfeitures	1,487,062	—	—	—	—	364,161	1,851,223
Interest	1,113,944	318,775	—	10,294	261,810	192,608	1,897,431
Payment in lieu of taxes	116,614	—	—	—	—	—	116,614
Contributions and other	120,261	118,310	523	—	—	91,910	331,004
Total revenues	54,604,720	35,412,636	11,095,652	22,892,242	261,810	19,433,562	143,700,622
Expenditures:							
Current:							
General government – administrative	9,909,013	—	—	—	—	162,663	10,071,676
General government – judicial	12,579,349	—	—	—	—	3,672,163	16,251,512
Public safety	15,165,158	—	—	—	—	—	15,165,158
Public works and enterprises	—	—	—	—	—	680,216	680,216
Human services	740,773	35,964,303	13,525,507	22,892,242	21,000	13,381,109	86,524,934
Culture and recreation	109,682	—	—	—	—	26,887	136,569
Conservation and development	679,171	—	—	—	—	47,333	726,504
Economic development and assistance	2,436,575	—	—	—	—	1,274,684	3,711,259
Debt service:							
Principal retirement	—	—	—	—	—	1,615,330	1,615,330
Debt interest	—	—	—	—	—	967,808	967,808
Bond issuance cost	—	—	—	—	—	119,291	119,291
Capital outlay	1,814,242	17,308	22,110	—	3,489,365	1,231,623	6,574,648
Payments to other governments	446,058	—	—	—	—	269,543	715,601
Total expenditures	43,880,021	35,981,611	13,547,617	22,892,242	3,510,365	23,448,650	143,260,506
Excess (deficiency) of revenues over (under) expenditures	10,724,699	(568,975)	(2,451,965)	—	(3,248,555)	(4,015,088)	440,116
Other financing sources (uses):							
Transfers in	521,923	541,764	2,538,382	—	—	6,404,089	10,006,158
Transfers out	(8,684,578)	(6,469)	(86,417)	—	(176,930)	(1,922,104)	(10,876,498)
Bonds issued	—	—	—	—	17,121,750	—	17,121,750
Capital lease	24,335	—	—	—	—	—	24,335
Bond discount	—	—	—	—	—	(34,507)	(34,507)
Insurance recovery	—	33,680	—	—	—	—	33,680
Sale of assets	300	—	—	—	—	—	300
Total other financing sources (uses)	(8,138,020)	568,975	2,451,965	—	16,944,820	4,447,478	16,275,218
Net change in fund balances	2,586,679	—	—	—	13,696,265	432,390	16,715,334
Fund balances, beginning of year (Note 1D)	22,271,807	—	—	—	4,042,418	6,994,029	33,308,254
Fund balances, end of year	\$ 24,858,486	—	—	—	17,738,683	7,426,419	50,023,588

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, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

Net change in fund balances-total governmental funds \$ 16,715,334

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	6,574,834
Depreciation expense	(2,081,538)
Retirement and sale of equipment	(45,868)

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.

350,533

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.

(15,504,927)

Governmental funds report the effect of issuance costs, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

88,996

Other post employment benefits and arbitrage payable are reflected on the statement of activities but are not considered a current expenditure for the fund statements.

(184,196)

Expenditures based on future pension obligations are reported as a net pension asset reducing activity expenses.

442,761

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.

(205,458)

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

(99,553)

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.

328,292

Change in net assets of governmental activities	\$	<u>6,394,147</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
Proprietary Funds

December 31, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				Internal Service Fund Workers' Compensation
	Enterprise Funds				
	County	Emergency	Other Non-	Totals	
	Nursing Home	Telephone	major Funds		
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,714,781	3,881,820	200	5,596,801	1,908,835
Investments	3,000,000	—	—	3,000,000	—
Restricted cash:					
Patient funds	261,251	—	—	261,251	—
Bond proceeds	—	1,070,465	—	1,070,465	—
Due from other funds	—	—	30,643	30,643	470,883
Accounts receivable (net of allowance):					
Patient accounts receivable	3,982,143	—	—	3,982,143	—
Customer accounts receivable	—	825,094	3,634	828,728	2,200
Due from other governments	—	33,163	232,398	265,561	—
Prepaid items	22,242	62,570	1,364	86,176	79,742
Total current assets	8,980,417	5,873,112	268,239	15,121,768	2,461,660
Noncurrent assets:					
Net pension asset	158,087	28,772	12,264	199,123	—
Deferred charges	163,405	114,058	—	277,463	—
Capital assets, net of depreciation	12,557,293	5,730,918	1,190,801	19,479,012	—
Total noncurrent assets	12,878,785	5,873,748	1,203,065	19,955,598	—
Total assets	21,859,202	11,746,860	1,471,304	35,077,366	2,461,660
Liabilities					
Current liabilities:					
Accounts payable	753,854	181,157	35,674	970,685	739
Accrued liabilities and withholdings					
Accrued payroll	441,471	82,029	32,156	555,656	—
Accrued interest	80,674	64,916	—	145,590	—
Due to other funds	375,269	1,126,189	53,328	1,554,786	—
Unearned revenue	—	843,576	—	843,576	—
Funds held as fiduciary	261,251	—	—	261,251	—
General obligation bonds payable	349,416	433,282	—	782,698	—
General obligation notes payable	681,786	468,009	—	1,149,795	—
Sick and vacation accrual	65,210	14,965	6,680	86,855	—
Workers' compensation claims payable	—	—	—	—	375,795
Total current liabilities	3,008,931	3,214,123	127,838	6,350,892	376,534
Noncurrent liabilities:					
Due in more than one year:					
General obligation bonds payable	1,463,324	1,871,755	—	3,335,079	—
General obligation notes payable	9,799,136	7,061,364	—	16,860,500	—
Workers' compensation claims payable	—	—	—	—	822,947
Net OPEB obligation	44,998	6,864	3,817	55,679	—
Sick and vacation accrual	486,497	201,262	56,507	744,266	—
Total noncurrent liabilities	11,793,955	9,141,245	60,324	20,995,524	822,947
Total liabilities	14,802,886	12,355,368	188,162	27,346,416	1,199,481
Net assets					
Invested in capital assets, net of related debt	427,035	(2,918,967)	1,190,801	(1,301,131)	—
Unrestricted	6,629,281	2,310,460	92,341	9,032,082	1,262,179
Total net assets (deficiency)	\$ 7,056,316	(608,507)	1,283,142	7,730,951	1,262,179

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.

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

Net assets of business-type activities

1,262,179

(380,253)

\$ 8,612,877

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, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				
	Enterprise Funds				Internal Service Fund
	County Nursing Home	Emergency Telephone	Other Non-major Funds	Totals	Workers' Compensation
Operating revenues:					
Charges for sales and services:					
County charges	\$ 22,488,059	1,944,338	1,551,576	25,983,973	805,447
Rentals and other revenues	52,959	410	—	53,369	—
Total operating revenues	22,541,018	1,944,748	1,551,576	26,037,342	805,447
Operating expenses:					
Patient/client services	17,871,364	4,020,757	2,890,352	24,782,473	113,565
Depreciation	967,574	781,585	329,455	2,078,614	—
Administrative	3,828,805	101,246	—	3,930,051	—
Total operating expenses	22,667,743	4,903,588	3,219,807	30,791,138	113,565
Operating income (loss)	(126,725)	(2,958,840)	(1,668,231)	(4,753,796)	691,882
Nonoperating revenues (expenses):					
Grants	—	3,001,977	1,400,301	4,402,278	—
Interest income	192,201	143,311	37	335,549	43,935
Interest expense	(510,605)	(378,811)	—	(889,416)	—
Total net nonoperating revenues (expenses)	(318,404)	2,766,477	1,400,338	3,848,411	43,935
Income (loss) before transfers	(445,129)	(192,363)	(267,893)	(905,385)	735,817
Contributed capital	13,259	—	—	13,259	—
Transfers in	—	715,530	182,933	898,463	—
Transfers out	—	—	(28,123)	(28,123)	—
Change in net assets	(431,870)	523,167	(113,083)	(21,786)	735,817
Total net assets (deficiency), beginning of year	7,488,186	(1,131,674)	1,396,225		526,361
Total net assets (deficiency), end of year	\$ 7,056,316	(608,507)	1,283,142		1,262,178

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.

735,817

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

(329,236)

Change in net assets of business-type activities

\$ 384,795

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, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				
	Enterprise Funds				Internal Service Fund
	County Nursing Home	Emergency Telephone	Other Non-major Funds	Totals	Workers' Compensation
Cash flows from operating activities:					
Cash received on surcharges	\$ —	1,941,500	—	1,941,500	—
Cash received on county charges	22,721,509	—	1,558,544	24,280,053	334,564
Payments to vendors	(5,571,485)	(1,386,772)	(1,453,371)	(8,411,628)	—
Payments to employees	(16,121,087)	(2,728,713)	(1,198,960)	(20,048,760)	(502,317)
Net cash provided by (used in) operating activities	1,028,937	(2,173,985)	(1,093,787)	(2,238,835)	(167,753)
Cash flows from noncapital financing activities:					
Subsidy from federal/state grants	—	2,803,392	1,000,457	3,803,849	—
Transfers to other funds	—	—	(29,201)	(29,201)	—
Transfers from other funds	—	2,631,602	141,804	2,773,406	—
Net cash provided by noncapital financing activities	—	5,434,994	1,113,060	6,548,054	—
Cash flows from capital and related financing activities:					
Subsidy from federal/state grants	—	165,919	181,605	347,524	—
Purchase of capital assets	(213,252)	(1,058,662)	(200,915)	(1,472,829)	—
Proceeds from the issuance of notes	—	1,378,250	—	1,378,250	—
Principal paid on capital debt	(592,523)	(552,950)	—	(1,145,473)	—
Interest paid on capital debt	(492,172)	(361,565)	—	(853,737)	—
Net cash used in capital financing activities	(1,297,947)	(429,008)	(19,310)	(1,746,265)	—
Cash flows from investing activities:					
Proceeds from the sale and maturities of investments	6,810,000	200,000	—	7,010,000	—
Purchase of investments	(5,010,000)	—	—	(5,010,000)	—
Investment income received	192,201	143,311	37	335,549	49,736
Net cash provided by investing activities	1,992,201	343,311	37	2,335,549	49,736
Net increase (decrease) in cash and cash equivalents	1,723,191	3,175,312	—	4,898,503	(118,017)
Cash and cash equivalents, January 1	252,841	1,776,973	200	2,030,014	2,026,852
Cash and cash equivalents, December 31	\$ 1,976,032	4,952,285	200	6,928,517	1,908,835

(Continued)

STATEMENT OF CASH FLOWS

Proprietary Funds

For the year ended December 31, 2008

COUNTY OF CUMBERLAND, PENNSYLVANIA

	Business-type Activities				
	Enterprise Funds				Internal Service Fund
	County Nursing Home	Emergency Telephone	Other Non-major Funds	Totals	Workers' Compensation
(Continued)					
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (126,725)	(2,958,840)	(1,668,231)	(4,753,796)	691,882
Adjustments to reconcile operating income (loss) to net cash used by operating activities:					
Depreciation expense	967,574	781,585	329,455	2,078,614	—
Gain on disposal of capital assets	—	1,854	—	1,854	—
Changes in assets and liabilities in:					
Patient accounts receivable	96,153	—	—	96,153	—
Due from other governments	—	—	450	450	—
Customer accounts receivable	—	(3,125)	750	(2,375)	—
Due from other funds	—	—	—	—	(470,883)
Prepaid items	(7,668)	71,919	(1,364)	62,887	(79,742)
Net pension asset	(158,087)	(28,773)	(12,264)	(199,124)	—
Deferred charges	15,683	1,264	—	16,947	—
Accounts payable	67,564	(81,399)	14,134	299	(2,407)
Accrued liabilities and withholdings	201,369	19,758	5,243	226,370	—
Due to other funds	80,582	14,908	234,223	329,713	—
Funds held as fiduciary	(152,506)	—	—	(152,506)	—
Net OPEB obligation	44,998	6,864	3,817	55,679	—
Long term debt-claims payable	—	—	—	—	(306,603)
Total adjustments	1,155,662	784,855	574,444	2,514,961	(859,635)
Net cash provided by (used in) operating activities	\$ 1,028,937	(2,173,985)	(1,093,787)	(2,238,835)	(167,753)

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

STATEMENT OF FIDUCIARY NET ASSETS**Fiduciary Funds*****December 31, 2008*****COUNTY OF CUMERLAND, PENNSYLVANIA**

	Pension Trust – Employees' Retirement	Agency Funds
Assets		
Cash and cash equivalents	\$ 4,052,163	2,499,500
Investments, at fair value		
U.S. Government securities	21,171,244	—
Corporate bonds	18,496,911	—
Corporate stocks	29,557,969	—
Mutual funds	19,528,990	—
Total investments	88,755,114	—
Accrued county contribution receivable	647,229	—
Accrued interest and dividends receivable	828,990	—
Total assets	94,283,496	2,499,500
Liabilities		
Due to other governments	—	756,001
Escrow and other liabilities	26,359	1,743,499
Total liabilities	26,359	2,499,500
Net assets		
Net assets held in trust for pension benefits and other purposes	\$ 94,257,137	—

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, 2008*****COUNTY OF CUMBERLAND, PENNSYLVANIA****Additions:**

Contributions:

Employer	\$ 3,303,731
Plan members	2,554,243
Total contributions	<u>5,857,974</u>

Investment income:

Net depreciation in fair value of investments	(27,336,631)
Interest	2,776,352
Dividends	<u>1,064,421</u>
Total investment income	(23,495,858)
Less investment expense	<u>385,063</u>
Net investment earnings	<u>(23,880,921)</u>
Total additions	<u>(18,022,947)</u>

Deductions:

Benefits	4,389,097
Refunds of contributions	429,134
Administrative expenses	<u>104,738</u>
Total deductions	<u>4,922,969</u>
Change in net assets	(22,945,916)

Net assets:

Beginning of year	<u>117,203,053</u>
End of year	<u>\$ 94,257,137</u>

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

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 229,361 residents.

The accompanying financial statements present the primary 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
- Army Heritage Education Center Foundation 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
- Central Cumberland County Task Force on Regional Development
- Children Services Citizen Advisory Committee
- Commission for Women
- Cooperative Extension Board
- Cumberland Valley Visitors Bureau Tourism Committee
- Drug & Alcohol Commission Community Advisory Board
- Economic Development Corporation Board
- Harrisburg Area Transportation Study Coordinating Committee
- Harrisburg Area Transportation Study Technical 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 organized April 18, 1973, by the City of Harrisburg and the Counties of Cumberland and Dauphin under the laws of the Commonwealth of Pennsylvania, in compliance with the Pennsylvania Municipality Authorities Act, for the purpose of providing public transportation within the Counties of Cumberland and Dauphin, including the City of Harrisburg. CAT is governed by a seven-member board appointed by the sponsoring municipalities. 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 2008 audited financial statements are:

<u>Fiscal year:</u>	<u>June 30, 2008</u>
Operating revenues	\$ 6,493,711
Operating expenses	19,404,895
Loss from operations	(12,911,184)
Total nonoperating revenues (expenses)	10,467,181
Capital grant funding	896,862
Net assets	25,885,333
Unrestricted deficit	(492,552)

CAT has a revolving loan with a bank with a maximum available amount of \$1,100,000, reducing to \$870,000 during the term of the loan at 70% of the bank's prime rate of interest, of which \$900,000 was outstanding at June 30, 2008. The note matures on December 31, 2011 and has minimum balance requirements for 30 days each year from \$ -0- to \$650,000, and is secured by payments made to the Authority from the Counties of Cumberland and Dauphin and the City of Harrisburg under the terms of the Mass Transit Services and Funding Agreement dated November 3, 2003. All assignable operating grant revenues from the Commonwealth of Pennsylvania, secure the note.

CAT has a \$750,000 line of credit with a bank at the bank's prime rate plus 150 basis points as of June 30, 2008, none of which was outstanding at June 30, 2008. The line of credit is secured by a security interest in the pending grant receipts from the Commonwealth of Pennsylvania.

Per the aforementioned Agreement, the County's annual subsidy payment is \$233,512. Additionally, the County pays \$11,320 per year to CAT for transportation services for Shippensburg Borough, and \$8,000 for transportation services between Shippensburg and Newville. The County also pays approximately \$15,000 per year for the Shared Ride program. In 2008, the County paid CAT \$269,225.

CAT issues publicly available financial statements that may be obtained by contacting the Assistant Executive Director – Administration at Capital Area Transit, 901 North Cameron Street, P.O. Box 1571, Harrisburg, PA 17105.

(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. *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, HealthChoices-

Cumberland County and capital projects) 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 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 *capital projects fund* is used to account for the financial resources used for the acquisition and capital construction of major capital projects and facilities (other than those financed by proprietary funds).

In accordance with GASB 34 major fund determination criteria, the County's capital projects fund meets the threshold of a major fund for the first time in 2008. It was previously reported as a non-major governmental fund. This reclassification resulted in a \$4,042,418 decrease in the non-major governmental funds beginning fund balance and a corresponding increase in the capital projects major fund beginning fund balance.

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 *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. Direct expenses are those that are clearly identified with a specific functional activity. Expenses reported for functional activities do not include allocated indirect expenses. Indirect expenses are reported in a separate column to differentiate them from direct expenses and revenues.

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. Prepaids

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 specific projects. Specific projects consist principally of the prison expansion, the Department of Public Safety Building and 911 system upgrades.

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 of 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 fund 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 operations 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 for adoption counseling by individuals who cannot afford to pay for it.

Reserve for Coroner – Act 122

Monies collected, per statute, are reserved to be used for training and equipment for the Coroner's Office.

Reserve for offenders' supervision

The County receives administrative fees from probationers within the County. The funds are reserved 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 and Other Post Employment 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. These benefits are financed on a pay-as-you-go basis. The County provides no other post employment benefits for County employees.

R. New Accounting Pronouncements

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 has implemented this standard during the current year as seen in Note 11.

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 became effective for periods beginning after December 15, 2007. No obligating events have occurred thus far, however, if any of the obligating events should occur in the future GASB 49 will be appropriately applied.

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 has implemented this standard during the current year as seen in Note 12.

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, including 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 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 53 is effective for periods beginning after June 15, 2009. The County did not hold any derivatives as of December 31, 2008. If any derivatives are entered into in the future, GASB 53 will be appropriately applied.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB 54 is effective for periods beginning after June 15, 2010. The County is required, and intends, to implement this Statement in 2011.

In November 2008, the GASB issued Concept Statement No. 5, *Service Efforts and Accomplishments Reporting – an amendment of GASB Concepts Statement No. 2*. The County does not report on service efforts and accomplishments, therefore, this statement is not applicable at this time.

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 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 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.

In 2008, the Federal Deposit Insurance Corporation (FDIC) increased insured limits for bank deposits from \$100,000 to \$250,000 currently through December 31, 2009.

Custodial credit risk – non-pension deposits – As of December 31, 2008, \$61,313,537 of the County's bank balance of \$66,450,545 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County's name	\$ 2,224,759
Uninsured and collateral held by pledging bank's trust department or agent but not in the County's name	<u>59,088,778</u>
Total	<u>\$ 61,313,537</u>

Additionally, \$427,234 of the Cumberland Area Economic Development Corporation's (CAEDC), a legally separate but blended component unit, bank balances of \$906,169 at December 31, 2008, 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, 2008, \$1,236,008 of the County's bank balance of its fiduciary funds of \$3,016,076 was exposed to custodial credit risk as follows:

Uninsured and collateral held by the bank but not in the County's name	\$ 57,829
Uninsured and collateral held by pledging bank's trust department or agent but not in the County's name	<u>1,178,179</u>
Total	<u>\$ 1,236,008</u>

The County is invested in a repurchase account with a bank balance of \$479,583 that is uninsured. This repurchase account is fully collateralized by, but not invested in, a U.S. government security that is held by the bank's agent and not in the County's name.

Custodial credit risk – Cumberland County Conservation District deposits – The Cumberland County Conservation District is subject to the County's aforementioned investment policy. As of December 31, 2008, the District's deposit balances were covered by the FDIC.

Custodial credit risk – Cumberland County Industrial Development Authority deposits – As of December 31, 2008, the Authority's deposit balances were covered by the FDIC.

Custodial credit risk – non-pension investments – The County is exposed to custodial credit risk at December 31, 2008, through a \$448,584 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, 2008, the County had the following maturities of debt securities:

		Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
<u>Debt securities</u>					
Money market funds	\$ 1,908,835	1,908,835	—	—	—
U.S. Treasury TIPS	448,584	—	—	—	448,584
Total debt securities	\$ 2,357,419	1,908,835	—	—	448,584

Of the non-pension investments above, \$1,908,835 of short-term, liquid investments are classified as cash and cash equivalents on the County's statement of net assets of the primary government.

Of the non-pension investments above, \$448,584 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 \$6,022,126 of the total \$6,470,710 of investments reported on the statement of net assets of the primary government.

The County holds \$448,584 of U.S. Treasury inflation-adjusted bonds (TIPS) at December 31, 2008. 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, 2008, the County’s pension trust fund had the following investments:

Pension Trust Fund Investments					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
<u>Debt securities</u>					
U.S. Treasury inflation protected securities	\$ 4,052,442	—	515,687	3,536,755	—
U.S. government securities	11,217,730	983	671,355	4,983,523	5,561,869
U.S. agency mortgage-backed securities	5,901,072	—	—	1,120,000	4,781,072
Collateralized mortgage obligations	3,250,685	—	—	171,927	3,078,758
Money market funds	4,052,163	4,052,163	—	—	—
Corporate bonds and notes	15,246,226	1,299,346	3,078,877	6,908,051	3,959,952
Total debt securities	43,720,318	5,352,492	4,265,919	16,720,256	17,381,651
<u>Other investments</u>					
Equity mutual funds-U.S.	8,245,475				
Equity mutual fund - international	11,283,515				
Equity securities-U.S.	29,557,969				
Total investments	\$ 92,807,277				

The total pension trust fund investments of \$92,807,277, above, includes \$4,052,163 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, 2008, follow:

Pension Fund Debt Securities Highly Sensitive to Interest Rate Changes

Debt Security	Amount	Interest Terms
U.S. agencies	\$1,120,000	Variable rate, 3 month LIBOR plus 100 basis points, as long as 3 month LIBOR is 7% or less. Quarterly calls.
U.S. agencies	700,000	7% to 11/2012, thereafter 20% if 6 month LIBOR is 7% or less. Quarterly calls.
U.S. agencies	1,010,000	6.5% to 2/2013, thereafter 15% as long as 6 month LIBOR is 7% or less. Quarterly calls.

Debt Security	Amount	Interest Terms
Corporate	378,880	3 month LIBOR plus 100 basis points to 2/2012, thereafter 3 month LIBOR plus 100 basis points if 3 month LIBOR is 7% or less. Quarterly calls.
Corporate	545,000	7% until 10/2011, thereafter 10% as long as 6 month LIBOR is 7% or less. Quarterly calls
Corporate	500,000	8.5% to 10/2007, thereafter previous coupon plus 10 year constant maturity treasury index (CMT), less 4.75% increasing quarterly. Quarterly calls.
Corporate	114,207	.85 of the 10 year CMT, minimum interest rate 3.5%, maximum interest rate 9.5%.
Corporate	241,400	10% until 5/2009, thereafter 50 times the difference between the constant maturity swap (CMS) rate for U.S. dollar swaps with a 30 year maturity and the CMS rate with a 10 year maturity. Quarterly calls.
U.S. government	755,000	3 month LIBOR plus 120 basis points, as long as 3 month LIBOR is 8% or less. Quarterly calls.
U.S. government	2,235,000	3 month LIBOR plus 130 basis points, as long as 3 month LIBOR is 7% or less. Quarterly calls.
U.S. agencies	1,005,000	8% as long as 6 month LIBOR is 7% or less. Quarterly calls.
U.S. government	100,042	7.375% as long as the CMS rate for U.S. dollar swaps with a 30 year maturity is greater than the CMS rate for U.S. dollar swaps with a 2 year maturity. Semi-annual calls.
U.S. government	1,055,000	8.45% as long as the CMS rate for U.S. dollar swaps with a 30 year maturity is greater than the CMS rate for U.S. dollar swaps with a 10 year maturity. Semi-annual calls.
U.S. government	447,143	8% as long as 6 month LIBOR is 7.5% or less. Semi-annual calls.
U.S. government	498,562	12 month LIBOR plus 1.674%.
U.S. government	71,745	One year CMT plus 2.295%.
U.S. government	221,941	One year CMT plus 2.152%.
U.S. government	29,357	Two year CMT plus 2.091%.
U.S. government	535,912	One year CMT plus 2.15%.
U.S. government	33,585	12 month LIBOR plus 1.769%.
U.S. government	754	One year CMT plus 2.178%.
	<u>\$11,598,528</u>	

The debt securities listed above that incorporate an index, such as LIBOR or the U.S. Treasury Constant Maturity index (CMT), 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, 2008, 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: \$2,066,072 of U.S. agency debt securities that are callable by the issuer, \$3,250,685 of collateralized mortgage-backed securities that are callable by the mortgage holder, \$1,448,983 of corporate debt securities that are callable by the issuer, \$602,740 of U.S. government securities that are subject to early payment by the mortgage holder, and \$2,010,325 of U.S. government securities that are callable by the issuer.

(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, 2008, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S & P Rating</u> <u>AAA</u>
<u>Debt securities</u>		
Money market funds	\$ 1,908,835	1,908,835
U.S. Treasury TIPS	448,584	448,584
Total debt securities	<u>\$ 2,357,419</u>	<u>2,357,419</u>

Credit risk – pension investments - Exposure to credit risk in the County pension trust fund at December 31, 2008, is as follows:

<u>Debt Securities</u>	<u>Fair Value</u>	<u>Credit Quality Ratings*</u>				
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Unrated</u>
U.S. Treasury inflation protected securities	\$ 4,052,442	—	—	—	—	4,052,442
U.S. government securities	11,217,730	9,224,119	—	—	—	1,993,611
U.S. agency mortgage-backed securities	5,901,072	5,901,072	—	—	—	—
Collateralized mortgage obligations	3,250,685	2,339,564	361,470	—	—	549,651
Money market funds	4,052,163	—	—	—	—	4,052,163
Corporate bonds and notes	15,246,226	1,120,280	1,859,279	8,810,019	3,456,648	—
Total	<u>\$ 43,720,318</u>	<u>18,585,035</u>	<u>2,220,749</u>	<u>8,810,019</u>	<u>3,456,648</u>	<u>10,647,867</u>
		43%	5%	20%	8%	24%

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

U.S. government securities consist of U.S. Treasury, GNMA, Fannie Mae and Freddie Mac debt securities.

On September 7, 2008, the Federal Housing Finance Agency (FHFA) placed Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation) in conservatorship. The U.S. Treasury has put in place a set of financing agreements to ensure that these government-sponsored enterprises continue to meet their obligations to holders of bonds that they have issued or guaranteed. As a result, the County's investments in Fannie Mae and Freddie Mac debt are reported herein as equivalent to U.S. government securities.

While certain U.S. government securities may be unrated, all securities reported in this class 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, 2008, the pension trust fund had more than five percent of its investment portfolio with the following issuer:

<u>Issuer - Debt Securities</u>	<u>Fair Value</u>	<u>Percent of Total Pension Trust Fund Investments</u>
Federal Home Loan Banks	\$ 5,901,072	6.4%

The Federal Home Loan Bank is an independent organization sponsored by the federal government and so is permitted by the County's investment policy to exceed the aforementioned five percent limitation imposed on other fixed income holdings. Debt issued by the above organization 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 an \$11,283,515 investment at fair value in an international equity mutual fund as of December 31, 2008. 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 \$11,283,515 investment at fair value, at December 31, 2008, 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 2008, 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, 2008, which are expected to be collected within one year.

The County nursing home has \$3,982,143 in net patient accounts receivable at December 31, 2008, 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 \$202,901 against the patient accounts receivable. Of the County nursing home's patient accounts receivable, \$256,000 is expected to be collected beyond one year.

Taxes receivable is reduced by an allowance for uncollectible accounts of \$517,998 for 2008 which is determined by a review of account status. Of the County's delinquent taxes receivable, \$249,000 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, 2008 is \$6,196,925. Of that balance, the County has recognized an allowance for doubtful accounts of \$5,168,942. Of the County's court costs and fines receivable, \$394,573 is expected to be collected beyond one year.

5. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Sales and Other Dispositions *	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,265,470	-	-	2,265,470
Construction in progress	3,295,469	4,047,511	(2,870,168)	4,472,812
Agricultural easements	6,695,398	264,532	-	6,959,930
Total capital assets, not being depreciated	12,256,337	4,312,043	(2,870,168)	13,698,212
Capital assets, being depreciated:				
Buildings and systems	37,480,174	446,699	52,532	37,979,405
Improvements other than buildings	75,247	-	-	75,247
Machinery and equipment	12,986,094	1,741,092	(803,761)	13,923,425
Bridges	6,774,381	2,945,168	-	9,719,549
Total capital assets being depreciated	57,315,896	5,132,959	(751,229)	61,697,626
Less accumulated depreciation for:				
Buildings and systems	(23,747,379)	(776,313)	6,399	(24,517,293)
Improvements other than buildings	(53,745)	(2,204)	-	(55,949)
Machinery and equipment	(6,847,211)	(1,189,189)	698,962	(7,337,438)
Bridges	(5,560,332)	(113,832)	-	(5,674,164)
Total accumulated depreciation	(36,208,667)	(2,081,538)	705,361	(37,584,844)
Total capital assets, being depreciated, net	21,107,229	3,051,421	(45,868)	24,112,782
Governmental activities capital assets, net	\$ 33,363,566	7,363,464	(2,916,036)	37,810,994

* The balance of sales and other dispositions include disposals, transfers and asset classification changes.

(continued)

5. Capital Assets (continued)

	Beginning Balance	Additions	Sales and Other Dispositions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 443,877	737,555	-	1,181,432
Total capital assets, not being depreciated	443,877	737,555	-	1,181,432
Capital assets, being depreciated:				
Buildings and systems	26,815,148	426,250	(3,576)	27,237,822
Improvements other than buildings	575,995	-	-	575,995
Machinery and equipment	13,412,375	320,626	(206,046)	13,526,955
Total capital assets being depreciated	40,803,518	746,876	(209,622)	41,340,772
Less accumulated depreciation for:				
Buildings and systems	(11,967,669)	(995,547)	3,535	(12,959,681)
Improvements other than buildings	(274,856)	(29,905)	-	(304,761)
Machinery and equipment	(8,931,541)	(1,053,162)	205,953	(9,778,750)
Total accumulated depreciation	(21,174,066)	(2,078,614)	209,488	(23,043,192)
Total capital assets, being depreciated, net	19,629,452	(1,331,738)	(134)	18,297,580
Business-type activities capital assets, net	\$ 20,073,329	(594,183)	(134)	19,479,012
	Beginning Balance	Additions	Sales and Other Dispositions	Ending Balance
Component units:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 188,513	2,962	-	191,475
Total capital assets being depreciated	188,513	2,962	-	191,475
Less accumulated depreciation for:				
Machinery and equipment	(121,131)	(15,148)	-	(136,279)
Total accumulated depreciation	(121,131)	(15,148)	-	(136,279)
Total capital assets, being depreciated, net	67,382	(12,186)	-	55,196
Component unit capital assets, net	\$ 67,382	(12,186)	-	55,196

5. Capital Assets (continued)

Depreciation expense was charged to the functions/programs of the County in 2008 as follows:

Governmental activities:

General government - administrative	\$	1,287,910
General government judicial		161,965
Public safety		321,243
Roads and bridge maintenance		113,832
Recycling and solid waste management		50,106
Human services:		
Mental health/mental retardation		22,988
Children and youth		45,211
Food and shelter		9,933
Office of aging		18,242
Other		32,952
Conservation		3,746
Economic development and assistance		13,410
Total depreciation expense - governmental activities	\$	<u><u>2,081,538</u></u>

Business-type activities:

Emergency telephone	\$	781,585
Hazardous materials protection		90,557
Transportation services		223,765
County nursing home		967,574
Early Learning Center		15,133
Total depreciation expense - business-type activities	\$	<u><u>2,078,614</u></u>

6. Interfund and Transfer Accounts

The composition of interfund balances at December 31, 2008, follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds:		
General fund	\$ 3,840,462	—
Mental health/mental retardation	—	100,910
Children and youth	—	1,915,612
HealthChoices-Cumberland County	—	32,114
Capital projects	—	8,146
Other non-major funds	1,456,269	2,186,689
Total	<u>5,296,731</u>	<u>4,243,471</u>
Enterprise funds:		
County nursing home	—	375,269
Emergency telephone	—	1,126,189
Other non-major funds	30,643	53,328
Total	<u>30,643</u>	<u>1,554,786</u>
Internal service:		
Worker's compensation	<u>470,883</u>	<u>—</u>
Total primary government	<u><u>\$ 5,798,257</u></u>	<u><u>5,798,257</u></u>

Interfund payable balances for the governmental and proprietary funds are the result of normal business processes at the County where the general fund pays outstanding bills, 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, 2008, follow:

	Transfers In	Transfers Out
Governmental funds:		
General fund	\$ 521,923	8,684,578
Mental health/mental retardation	541,764	6,469
Children and youth	2,538,382	86,417
Capital projects	—	176,930
Other non-major funds	6,404,089	1,922,104
Total	<u>10,006,158</u>	<u>10,876,498</u>
Enterprise funds:		
Emergency telephone	715,530	—
Other non-major funds	182,933	28,123
Total	<u>898,463</u>	<u>28,123</u>
Total primary government	<u><u>\$ 10,904,621</u></u>	<u><u>10,904,621</u></u>

Due to a difference in the basis of accounting for the treatment capital assets, there is a difference of \$6,402 in interfund transfers between the government-wide and fund financial statements.

7. Short-term Debt

On October 23, 2008, the County issued a tax revenue anticipation note in the amount of \$3,812,483 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 October 23, 2008 the County repaid \$3,812,483 related to this tax revenue anticipation note. There was no outstanding balance at December 31, 2008, related to the issuance of this short-term debt during 2008. Short-term debt activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax revenue anticipation notes	\$ —	3,812,483	3,812,483	—

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, 2008:

<u>Liability</u>	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds and notes payable:					
Bonds	\$ 18,273,838	17,121,750	1,464,321	33,931,267	1,437,302
Notes	2,175,725	-	125,205	2,050,520	125,205
Deferred amount on refundings	(37,318)	-	(4,046)	(33,272)	-
Discount on bonds and notes	(43,898)	(34,508)	(4,633)	(73,773)	-
Total bonds and notes payable	<u>20,368,347</u>	<u>17,087,242</u>	<u>1,580,847</u>	<u>35,874,742</u>	<u>1,562,507</u>
Arbitrage Payable	-	63,442	-	63,442	-
Sick and vacation	3,394,040	3,308,975	3,103,517	3,599,498	299,518
Other Post Employment Benefit Obligations	-	120,754	-	120,754	-
Capital leases	<u>40,055</u>	<u>24,335</u>	<u>25,803</u>	<u>38,587</u>	<u>21,613</u>
Governmental activities long- term liabilities	<u>\$ 23,802,442</u>	<u>20,604,748</u>	<u>4,710,167</u>	<u>39,697,023</u>	<u>1,883,638</u>
Business-type activities:					
Bonds and notes payable:					
Bonds	\$ 3,221,162	1,378,250	410,679	4,188,733	782,698
Notes	18,974,275	-	734,795	18,239,480	1,149,795
Deferred amount on refundings	(339,786)	-	(35,499)	(304,287)	-
Premium (discount) on notes	<u>7,198</u>	<u>(2,778)</u>	<u>274</u>	<u>4,146</u>	<u>-</u>
Total bonds and notes payable	<u>21,862,849</u>	<u>1,375,472</u>	<u>1,110,249</u>	<u>22,128,072</u>	<u>1,932,493</u>
Sick and vacation	832,037	1,138,899	1,139,815	831,121	86,855
Other Post Employment Benefit Obligations	-	55,679	-	55,679	-
Workers' compensation	<u>1,505,345</u>	<u>(30,283)</u>	<u>276,320</u>	<u>1,198,742</u>	<u>375,795</u>
Business-type activities long-term liabilities	<u>\$ 24,200,231</u>	<u>2,539,767</u>	<u>2,526,384</u>	<u>24,213,614</u>	<u>2,395,143</u>
Component unit:					
Sick and vacation	\$ 46,805	33,600	29,116	51,289	3,103
Other Post Employment Benefit Obligations	<u>-</u>	<u>1,615</u>	<u>-</u>	<u>1,615</u>	<u>-</u>
Component unit Long-term liabilities	<u>\$ 46,805</u>	<u>35,215</u>	<u>29,116</u>	<u>52,904</u>	<u>3,103</u>

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.

NOTES TO FINANCIAL STATEMENTS**DECEMBER 31, 2008**

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.

All bonds and notes outstanding at December 31, 2008, 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	1,720,000	2,755,000
G.O. note – 2003 issue	5.857%	2022	715,000	715,000	—
G.O. bond – 2004 issue	2% - 4.55%	2019	7,930,000	5,289,517	55,483
G.O. note – 2005 issue	2.6% - 5%	2021	15,650,000	1,335,520	11,669,480
G.O. bond - 2006 issue	3.7% - 4.3%	2019	9,900,000	9,800,000	—
G.O. notes – 2007 issue	3.6% - 4.1%	2020	6,610,000	—	6,570,000
G.O. bond – 2008 issue	2%-4.4%	2028	18,500,000	17,121,750	1,378,250
Long-term debt at December 31, 2008				35,981,787	22,428,213
Deferred amount on refundings				(33,272)	(304,287)
Premium (discount) on notes				(73,773)	4,146
Net long-term debt at December 31, 2008				<u>\$ 35,874,742</u>	<u>22,128,072</u>

Of the outstanding balance of the 2002 bond issue at December 31, 2008, \$1,798,404 of the principal has been accounted for in the County nursing home fund and \$956,596 of the principal has been accounted for in the emergency telephone fund. Principal of \$1,720,000 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, 2008, \$55,483 of the principal has been accounted for in the County nursing home fund and \$5,289,517 has been accounted for in the general fund.

Of the outstanding balance of the 2005 note issue at December 31, 2008, \$5,255,308 of the principal has been accounted for in the County nursing home fund, \$6,414,172 has been accounted for in the emergency telephone fund, and \$1,335,520 has been accounted for in the general fund.

Of the outstanding balance of the 2006 bond issue at December 31, 2008, \$9,800,000 of the principal has been accounted for in the general fund.

NOTES TO FINANCIAL STATEMENTS**DECEMBER 31, 2008**

Of the outstanding balance at December 31, 2008 of the 2007 note issue, \$5,362,434 has been accounted for in the County nursing home fund and \$1,207,566 has been accounted for in the emergency telephone fund.

In 2008, the County issued general obligation bonds, series 2008 in the amount of \$18,500,000 to fund several capital projects, to include but not limited to, the construction of a new Public Safety Building, the purchase of equipment and related infrastructure work relative to the 911 system of the County, renovation of an existing building of the County, and the renovation and expansion of the existing prison of the County. Of the outstanding balance at December 31, 2008 of the 2008 bond issue, \$1,378,250 has been accounted for in the emergency telephone fund and \$17,121,750 has been accounted for in the capital projects fund.

The County's December 31, 2008 net nonelectoral debt limit and combined net nonelectoral debt and net lease rental debt limit are \$422,800,536 and \$581,580,456 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, 2008, including interest payments, are as follows:

		Governmental Activities		Business- type Activities	
		Principal	Interest	Principal	Interest
2009	\$	1,562,507	1,397,315	1,932,493	841,826
2010		1,611,101	1,351,621	1,993,899	775,933
2011		1,653,461	1,300,140	2,071,539	705,237
2012		1,716,091	1,241,964	2,153,909	623,366
2013		1,788,388	1,178,042	2,226,612	533,289
2014-2018		15,080,239	4,279,410	7,529,761	1,729,481
2019-2023		6,525,000	2,004,126	4,520,000	265,323
2024-2028		6,045,000	679,786	—	—
Total	\$	<u>35,981,787</u>	<u>13,432,404</u>	<u>22,428,213</u>	<u>5,474,455</u>

9. Deficit Net Assets

The County's emergency telephone fund has negative net assets of \$608,507 at December 31, 2008. 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 \$652,337 for the year ended December 31, 2008.

NOTES TO FINANCIAL STATEMENTS**DECEMBER 31, 2008**

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, 2008:

<u>Year Ending December 31</u>	<u>Lease Payments</u>
2009	\$ 561,394
2010	458,383
2011	410,624
2012	311,215
2013	310,960
2014-2018	1,278,882
2019-2023	134,823
Total	<u>\$ 3,466,281</u>

B. Capital Lease Obligation

The County is required to make lease payments for capital assets acquired in prior years which consist of vehicles, photocopiers, computer 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, 2008.

The assets acquired through current capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 96,304
Less: Accumulated depreciation	(36,597)
Machinery and equipment, net	<u>\$ 59,707</u>

The following is a schedule of future minimum payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2008:

	<u>Governmental Activities</u>
2009	\$ 22,778
2010	16,592
2011	725
Total minimum lease payments	40,095
Less amount representing interest	(1,508)
Present value of net minimum lease payments	<u>\$ 38,587</u>

C. Building space leased to third party

As part of the County's acquisition of the 310 Allen Road, Carlisle property on September 29, 2006, the County agreed to lease to the seller 10,000 square feet of an outbuilding for temporary document storage. The original lease ended December 31, 2008 and provided for annual rent of \$45,000. The lease term was extended for one year and now expires on December 31, 2009. The cost and accumulated depreciation of the leased space at December 31, 2008 was \$254,760 and \$12,740, respectively.

11. Other Post-Employment Benefits (OPEB)

Beginning in 2008, the County began reporting other post employment benefits in accordance with Governmental Accounting Standard Board Statement No. 45 (GASB No. 45). GASB No. 45 requires recognition in governmental financial statements of other post employment benefits as part of the compensation package of active employees for services rendered. The cost and obligation for other post employment benefits are required to be measured by an actuarial valuation.

Because 2008 was the year of transition for GASB No. 45, the requirements have been implemented prospectively. As a result, there is no OPEB obligation reported at the beginning of 2008.

Plan Description

Cumberland County sponsors and administers a post employment benefits plan entitled Cumberland County Retiree Medical Plan. It is a single-employer plan that covers health insurance benefits where County retirees and their beneficiaries may continue to participate in the County's health coverage. The County's health coverage is provided through an insurance company.

To be eligible to receive the benefits of the health insurance plan, a retiree must be receiving annuity payments from the Cumberland County Retirement Plan. The County Commissioners established the Plan and may amend the Plan at any time. The County is under no statutory or contractual obligation to provide this post-employment benefit.

Retirees opting to participate are asked to pay a premium amount that is less than the County's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the County, which gives rise to the benefit.

Membership of the Plan consisted of the following at January 1, 2009:

	<u>Membership</u>
Retirees and beneficiaries receiving benefits	41
Active employees	<u>1,048</u>
Total membership	<u><u>1,089</u></u>

Because the Plan consists solely of the County's decision to provide OPEB through the payment of the implied subsidy by extending medical benefits to retirees at the above mentioned blended rate, no stand-alone financial report is available. The Plan is not included in the financial report of another entity.

Funding Policy

The County funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The County has no statutory or contractual obligation to fund the Plan and only does so at the County's discretion. The County funds the implicit rate subsidy through the payment of health insurance premiums.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the actuarially determined annual required contribution (ARC) of the employer. The ARC represents a funding level that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

	2008
Employer normal cost	\$ 128,307
Amortization of unfunded actuarial accrued liability	126,543
Annual required contribution	254,850
Interest on the net OPEB obligation	-
Adjustment to the ARC	-
Annual OPEB cost	254,850
Contributions made	(76,802)
Increase in net OPEB obligation	178,048
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 178,048

The percentage of

OPEB cost contribution for the year of 2008 is as follows.

Year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
12/31/2008	\$254,850	30.14%	\$178,048

Funding Status and Funding Progress

The County's actuarial accrued liability (AAL) for other post-employment benefits as of January 1, 2008, is \$2,061,392. There are no Plan assets as of that date, thus, the entire amount is unfunded. There is no plan to fund the outstanding AAL.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2008	-	\$2,061,392	\$2,061,392	-	\$44,752,526	4.60%

Actuarial Methods and Assumptions

Among the actuarial methods and assumptions used in the actuarial valuation are: (a) the projected unit credit cost method, (b) amortization of the unfunded actuarial accrued liability over 30 years, (c) a 4.5 percent discount rate based on an assumed 3 percent general inflation rate (this is assumed to be the long-term expected rate of return on non-Plan assets), (d) a health care inflation rate that begins at 10 percent in 2008 trending to 5 percent by 2013, (e) the amortization method for the most recent actuarial valuation is the level dollar method with an open period.

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

The required schedule of funding progress in the required supplementary information (RSI) immediately following the notes to the financial statements, is to present multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the County maintains no Plan assets, information relative to Plan asset disclosures is not applicable. Additionally, because 2008 was the year of implementation of GASB No. 45, the OPEB disclosure standards are implemented prospectively; therefore, the RSI does not reflect similar information respective to the preceding two years.

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

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

As of December 31, 2008, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries receiving benefits	426
Terminated plan members entitled to but not yet receiving benefits	93
Active plan members	<u>1,136</u>
Total	<u>1,655</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 salaries 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 credited to the employee's account each year at the annual rate of 5.5 percent as voted upon by the County Retirement Board.

During 2008, the County recognized \$2,656,503 of actuarial annual pension cost.

An additional \$647,229 of pension cost was accrued during the year due to the extremely volatile nature of the economy in the last months of the year. The additional contribution was based on the County's estimate of the decline in the fund's investment holdings. This additional contribution is reported as a net pension asset in the government-wide and proprietary fund financial statements and as an accrued county contribution receivable in the County's pension trust fund financial statement.

For 2008, the County's annual pension cost of \$2,656,503 was equal to the County's required and actual contribution. The required contribution was determined as part of the January 1, 2008, 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 4.25-4.5 percent; graduated

NOTES TO FINANCIAL STATEMENTS**DECEMBER 31, 2008**

in a 0.25 percent increment over one year. 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, 2008, was 26 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>
12/31/06	\$2,611,643	100%	—
12/31/07	3,018,632	100%	—
12/31/08	2,656,503	100%	—

The schedule of funding progress for the Cumberland County Retirement Fund as of the most recent actuarial valuation date is as follows:

(1) <u>Actuarial Valuation Date</u>	(2) <u>Actuarial Value of Assets</u>	(3) <u>Actuarial Accrued Liability- Entry Age</u>	(4) <u>Unfunded Actuarial Accrued Liability</u>	(5) <u>Funded Ratio (2/3)</u>	(6) <u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4/6)</u>
1/1/09	\$110,828,272	\$ 134,504,045	\$ 23,675,773	82.4%	\$ 43,315,850	49.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

D. Historical Trend Information

Historical trend information for the Plan is presented as required supplementary information on page 90 and 91 of this report.

13. Litigation

The County is involved in several lawsuits arising in the normal course of business. It is the County solicitor's opinion that the aggregate amount of potential claims not covered by insurance resulting from actions against the County would not materially affect the financial position of the County at December 31, 2008.

14. Commitments and Contingencies**Commitments**

The County has significant contractual commitments related to its prison expansion. At December 31, 2008 the County's commitments are as follows:

Project	Expended Through December 31, 2008	Remaining Commitment
Prison Expansion - Phase I	\$ 2,734,326	11,927,855

The County's prison expansion has been financed with bond proceeds through December 31, 2008.

Grants

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

15. Self Insurance**Workers' Compensation**

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

All County employees are covered by the workers' compensation fund. Elected officials, excluding the coroner, are not covered by workers' compensation. 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, 2008 and December 31, 2007, were:

		Beginning of Year Liability	Provision for Claims		Claim Payments		End of Year Liability
			Current Year	Prior Years	Current Year	Prior Years	
2008	\$	1,505,345	564,903	(595,186)	94,686	181,634	1,198,742
2007	\$	1,579,601	578,105	(170,024)	67,078	415,259	1,505,345

16. Non-Recourse Debt

A. Cumberland County Municipal Authority (MA)

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

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

As of December 31, 2008, there were 24 series of revenue bonds outstanding. The aggregate principal amount payable could not be determined; however, their original issue amounts totaled \$515,490,000.

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, 2008, the projects had \$49,944,416 in outstanding principal balances.

17. Subsequent Event

On February 19, 2009, the County Commissioners adopted an ordinance to refund a portion of the County's 2002 outstanding general obligation bonds and all of the 2004 outstanding general obligation bonds for the purpose of reducing the total debt service over the life of the series. The 2009 general obligation bonds in the aggregate principal amount of \$9,995,000 have interest ranging from 1.50 percent to 3.00 percent over ten years.