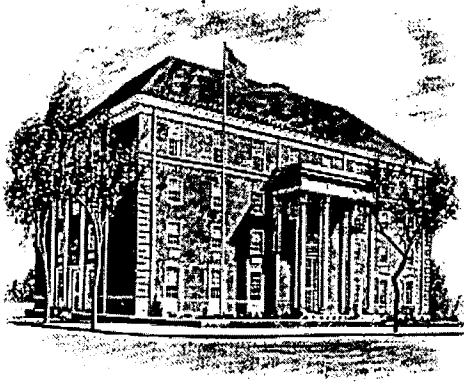


Controller of Cumberland County

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ALFRED L. WHITCOMB
CONTROLLER

ROBERT J. DAGROSA, CPA
FIRST DEPUTY CONTROLLER

MICHAEL A. CLAPSADL, CPA
SECOND DEPUTY CONTROLLER

TINA L. POOL
ADMINISTRATIVE ASSISTANT

JAMES D. BOGAR
SOLICITOR

May 22, 2007

TO: THE COMMISSIONERS AND CITIZENS OF CUMBERLAND COUNTY

County Code requires the elected County Controller to annually, by June 30th, prepare a financial report and audit of the County's books. The Controller publishes a Comprehensive Annual Financial Report (CAFR) as part of satisfying this requirement. Cumberland County's CAFR is prepared in accordance with U.S. generally accepted accounting principals (GAAP). The CAFR is audited by an independent firm of certified public accountants in cooperation with the Controller.

This report consists of management's representations concerning the finances of Cumberland County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report.

To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal control should not outweigh its benefits, the County's internal control has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As the Controller, I assert that, to the best of my knowledge and belief, this financial report is complete and reliable in all material respects.

Two "government-wide" financial statements are included in the County's CAFR: the Statement of Net Assets and the Statement of Activities. These financial statements are discussed more fully in Note 1 to the financial statements.

These government-wide financial statements help taxpayers:

- Assess the finances of the County in its entirety, including the year's operating results.
- Determine whether the County's overall financial position improved or deteriorated.

- Evaluate whether the County’s current-year revenues were sufficient to pay for current-year services.
- See the County’s cost of providing services to its citizenry.
- See how the County finances its programs – through user fees and other program revenues versus County tax revenues.
- Understand the extent to which the County has invested in capital assets, including bridges.
- Make better comparisons between governments.

The County’s financial statements have been audited by Ernst & Young LLP in cooperation with the Controller. Ernst & Young LLP is a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the year ended December 31, 2006, are free of material misstatement. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County is part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County’s separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). A letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County’s MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE COUNTY

Introduction

Cumberland County is a fourth class county founded January 27, 1750. It is governed by an elected Board of Commissioners consisting of three members elected to four year terms. The Commissioners are the responsible managers and administrators of the County’s fiscal affairs. The Controller supervises the County’s fiscal affairs by keeping the books, auditing, settling and adjusting the accounts, and reporting the County’s financial results.

Cumberland County provides its residents with a wide variety of services in areas such as emergency telephone, prison, courts, probation, road and bridge maintenance, Claremont Nursing and Rehabilitation Center, and human services which include mental health and mental retardation, HealthChoices, children and youth, aging and many others.

The County is located in the south central part of the state, between two Appalachian Mountain Ranges. Generally, the County's boundaries follow definite physical features. It is bounded on the North by the Blue Mountain Range, on the East by the west bank of the Susquehanna River, on the South its southeastern boundary follows the Yellow Breeches Creek from the Susquehanna River to Williams Grove with the remainder of its southeastern and southern boundary following Mains Run, Gum Run, Middle Spring Creek and Laughlin Run. There are eleven boroughs and twenty-two townships in the County. Harrisburg, the State Capital of Pennsylvania, is located in the county adjacent to Cumberland County. The County has a land area

of 555 square miles and an estimated 2006 population of 226,117. Twenty-nine percent of the land is forest and fifty-four percent is crop and pasture land. It is the 16th most populous county in the state and ranks 40th out of 67 counties in size.

Cumberland County is in close proximity to the region's many cultural, historical and entertainment attractions – Harrisburg, the state's capital; Washington, D.C., the nation's capital; Gettysburg, the Civil War Battlefield; Inner Harbor, Baltimore, Maryland; and nearby Hershey, with its well-known Hershey Park.

Component Units

The County adheres to Government Accounting Standards Board (GASB) Statement No. 14 criteria in determining which activities and entities to include in the County's financial statements based on their financial accountability and nature of relationship to the County.

The Cumberland Area Economic Development Corporation, a legally separate governmental not-for-profit, qualifies as a blended component unit and is reported as a special revenue fund of the County.

The Cumberland County Conservation District and the Industrial Development Authority qualify as discretely presented component units of the County.

The Cumberland County Library System and its member libraries are not reported as components of the County using the above criteria.

Budget

By law, the County budget is required to be adopted by the County Commissioners not later than December 31st of the previous year. The proposed budget is required to be available for public inspection for at least twenty days prior to its adoption. The Commissioners may at any time, by resolution, make supplemental appropriations for any lawful purpose. Appropriations lapse at the close of the fiscal year to the extent not expended.

The County Commissioners must approve changes to overall appropriations at the fund level. Therefore, the legal level of budgetary responsibility is by fund.

Budgets are legally adopted for all County governmental funds, except for the Cumberland Area Economic Development Corporation, a legally separate governmental not-for-profit, and the Industrial Development Authority, a discretely presented component unit of the County.

Local Economy

Cumberland County's local economy is driven by its approximately 5,739 businesses that employ nearly 125,000 people. Cumberland County ended 2006 with an unemployment rate of 2.8%, one of the lowest rates in Pennsylvania, which had a statewide unemployment rate of 4.5%.

The County's stable employment can be attributed to the presence of major employers in the insurance, healthcare, manufacturing, and transportation and warehousing industries. The County's five largest employers include the U.S. Government, Pennsylvania Blue Shield, Giant Foods, Holy Spirit Hospital, and the Commonwealth of Pennsylvania.

Cumberland County workers' incomes are slightly above state averages with the county's per capita income at \$35,206 and Pennsylvania's at \$33,312. This can be attributed to the high employment numbers

in the health care and transportation and warehousing industries where county wages are significantly higher than state wages.

Long-term Planning

As a result of Cumberland County's long term planning and strong financial status, Standard & Poor's June 12, 2006 rating of the County's General Obligation bonds was raised to AA+ from AA. Their report stated that the rating upgrade reflected "...the county's consistent trend of strong financials evidenced through historically high reserve levels. This upgrade also reflects the strong fiscal management of the county demonstrated through several implemented policies and long-term planning."

The County's long-term planning efforts that Standard & Poor's considered included the 2005 Financial Conditions Report, the 2006 County Benchmark Comparisons Report, the 2006 Service Analysis and the 2007 County Strategy & Budget, which was adopted in December 2006 - the result of the County Commissioners' and management's efforts to become one of the best run counties in Pennsylvania.

Cumberland County's new County Strategy & Budget incorporates the best practices of strategic planning into the budget process and may very well lead to a new trend in helping to make Pennsylvania's local governments more efficient and effective in delivering services to our citizens. The two main purposes of the new document are to provide elected officials and public managers with the tools to better manage their agencies and to communicate to the public their vision and strategic planning priorities.

The 2007 County Strategy, as integrated with the County Budget, utilizes a comprehensive approach to developing an actionable performance-based budget. Developing an organizational strategy means making choices and decisions. Defining strategy means addressing needs that will help achieve our desired future for our citizens and our government. The integration of financial resources and strategy demonstrates how the budget supports the County Commissioners' Strategic Directions and Focus Area Goals which in turn facilitate the achievement of the County's Vision and Mission. The 2007 County Strategy is a critical tool used in making budget recommendations. The 32 focus area goals in the County Strategy guide and direct planning, decision making, and the accomplishment of the Vision and Mission.

The Commissioners' strategic planning efforts as outlined in the County Strategy have identified several major initiatives including:

- Alternative sanctions measures including electronic monitoring and a new day reporting center to stabilize the prison population and potentially forestall the inevitable expansion of the County prison that would substantially increase debt service payments and operating costs.
- The continued use of a private firm to manage the County nursing home which has dramatically increased occupancy, reduced the use of costly outside agency usage and maintained stable levels of reserve funds, since taking over management in August 2006.
- Participating in the International City/County Management Association sponsored National Citizen Survey to ascertain the opinions of residents related to County services and quality of life in order to assist the Commissioners in developing their 2008 County Strategy and beyond.
- Beginning the process of conducting performance reviews of major cost centers such as children and youth placement facilities and county building security to ensure quality services at reduced costs to the taxpayers.

- Conducting a comprehensive review of all discretionary departmental fees and fines in order to alleviate the reliance on general fund dollars where prudent.

Financial Policies and Practices

The Cumberland County Commissioners have adopted certain key financial policies and practices to guide its fiscal operations.

The County Commissioners and the Retirement Board have both formally adopted investment policies governing County and Pension Trust Fund investments, respectively.

The County Commissioners have formally adopted purchasing policies encompassing legal compliance and encouraging competitive and economical procurement of goods and services.

Although not formally adopted by the County Commissioners, the County has implemented other key fiscal practices such as formalized budget versus actual monitoring on a monthly basis and a separate evaluation and approval process for capital spending.

Financial Reporting Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Cumberland County for its comprehensive annual financial report for the fiscal year ended December 31, 2005. This was the eighteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to Cumberland County for its popular annual financial report for the year ended December 31, 2005. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a popular annual financial report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. Cumberland County has received a Popular Award for the last three consecutive years. We believe our current report continues to conform to the popular annual financial reporting requirements, and we are submitting it to the GFOA.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the staff of the Controller's Office, the Finance Office and all department fiscal officers. Credit must also

be given to the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of Cumberland County's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Alfred L. Whitcomb". The signature is written in a cursive style with a prominent initial "A".

Alfred L. Whitcomb
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Cumberland
Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

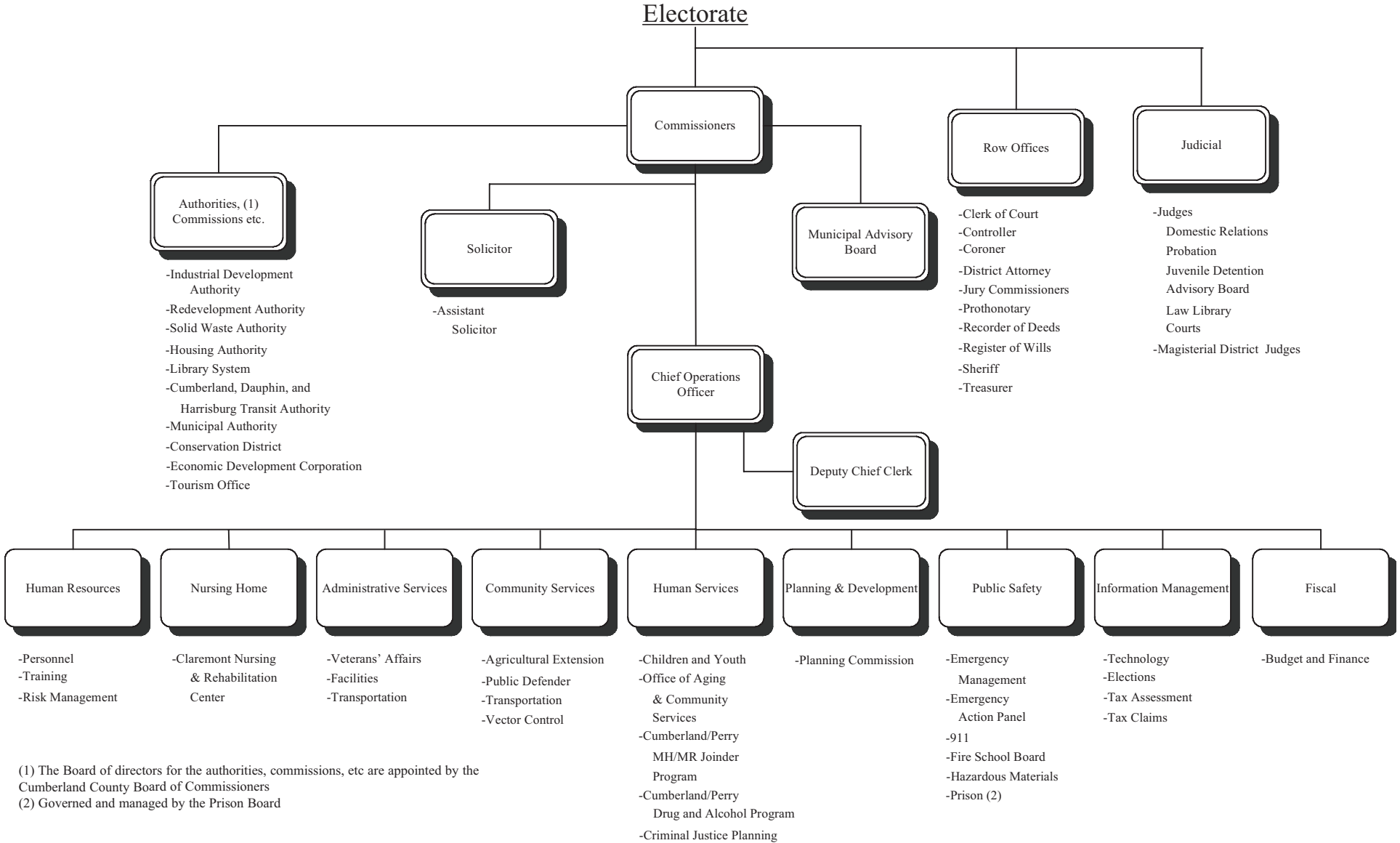
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

Cumberland County, Pennsylvania Organizational Chart



(1) The Board of directors for the authorities, commissions, etc are appointed by the Cumberland County Board of Commissioners

(2) Governed and managed by the Prison Board

COUNTY OF CUMBERLAND
LIST OF ELECTED OFFICIALS
DECEMBER 31, 2006

COMMISSIONERS

Bruce Barclay, Chairperson
Gary Eichelberger
Richard L. Rovegno

PROTHONOTARY

Curtis R. Long

CLERK OF COURT

Dennis E. Lebo

JUDGES OF COURT

Honorable Edgar B. Bayley, President Judge
Honorable Kevin A. Hess
Honorable J. Wesley Oler
Honorable Edward E. Guido
Honorable M.L. "Skip" Ebert

TREASURER

John C. Gross, II

SHERIFF

R. Thomas Kline

CONTROLLER

Alfred L. Whitcomb

REGISTER OF WILLS

Glenda Farner-Strasbaugh

CORONER

Michael L. Norris

RECORDER OF DEEDS

Robert P. Ziegler

JURY COMMISSIONERS

Ralph G. Viehman, Jr.
Larry Babitts

DISTRICT ATTORNEY

David Freed (acting)

