



# LOWER ALLEN TOWNSHIP

2233 GETTYSBURG ROAD • CAMP HILL, PENNSYLVANIA 17011

June 23, 2008

To the Citizens of Lower Allen Township  
and to the Township Board of Commissioners  
1993 Hummel Avenue  
Camp Hill, Pennsylvania 17011

The Comprehensive Annual Financial Report (CAFR) of the Lower Allen Township, Cumberland County, Pennsylvania, for the year ending December 31, 2007 is submitted herewith. This report is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States by a firm of licensed certified public accountants.

The financial statements herein were prepared by Township management, which is responsible for both the accuracy of the data presentation and the completeness and fairness of this report taken as a whole. To provide a reasonable basis for making these representations, management of the Lower Allen Township 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 Lower Allen Township's financial statements in conformity with GAAP. Because internal controls should not outweigh their benefits, Lower Allen Township's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free of material misstatement. The data presented, we believe, is accurate in all material aspects; all disclosures necessary to enable the reader to acquire the maximum understanding of the Township's financial activity have been provided.

Lower Allen Township's financial statements have been audited by Maher Duessel, CPAs, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of Lower Allen Township for the year ended December 31, 2007 are free of material misstatement. The independent audit involved 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. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Lower Allen Township's financial statements for the year ended December 31, 2007, are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

### Reporting Entity and Services Offered

This report includes all the funds under the auspices of the Lower Allen Township Board of Commissioners. There are no separate component units included or excluded. Certain agencies containing the name Lower Allen in the agency title are independent entities and are not included in this report. The agencies not meeting the criteria for inclusion in the Township's report are: the Lower Allen Sewer Authority, the Lower Allen Fire Company, and the Lisburn Fire Company.

The Township provides a full range of municipal services. The public safety program includes police, fire protection, ambulance, building inspection, planning, zoning, emergency management, school crossing guards, and weed control. Highway programs include street sweeping, street lighting, snow removal, traffic signalization and street markings, storm sewer maintenance, and essential highway construction and maintenance. An independent contractor provides refuse and recycling services through the Township. The Township owns and maintains numerous community and neighborhood parks and nature areas, and holds an annual Easter Egg Hunt and 4<sup>th</sup> of July picnic for all residents.

Additional services provided to the Township through outside contracts include an active recreation program provided by West Shore Recreation and Leisure Services; Cumberland County planning, land development and zoning review services; certain tax collection services provided by the West Shore Tax Bureau, and the benefits of membership in the Capital Region Council of Governments.

### Summary of the Local Economy

Lower Allen Township is located within the Harrisburg metropolitan statistical area. The area is noted as a government, transportation, medical services, finance, and tourist center. It is surrounded by some of the nation's most productive farmland.

Currently, the predominant Township land use is residential, giving the Township a suburban atmosphere. Of all land suitable for development, over 50% is in residential use. Of the dwellings themselves, approximately 67% are single-family detached structures and 98% are owner-occupied.

Most building activity has taken place since 1946. Prior to this date, virtually the entire Township was agricultural or woodland. Only 5% of the existing buildings were constructed prior to World War II.

Development occurred as population from neighboring boroughs spilled over into the Township. Generally, professional developers designed and constructed large tracts of land. Building codes and zoning restrictions, already in place, allowed oversight of the constructions. The end products are attractive neighborhoods with adequate roads, utilities, recreation areas, and schools.

There were two periods of rapid growth: the first from 1954 to 1969 when approximately half of all structures were built, and the second from 1985 through 1990.

The largest segment of the Township's population arrived during the first growth period. Slightly less than one-third of the Township residents moved here at that time. Most were very similar in income, age distribution, social background and political affiliation. This wave of in-migration and their children has had a great impact upon the Township's economy.

As their children reached maturity during the 1970's and early 1980's, they were unable to find affordable housing within the Township boundaries. As a result, this time span saw a leveling in population growth,

while per capita income and average age rose. Even though 1,278 dwelling units were added, population increased by only 310 people.

During the 1970's the nature of new construction changed to better accommodate higher property values. The commercial land usage acreage doubled, upper-class housing developments sprang up, and attractive apartments and condominiums appeared.

Beginning in 1985, the rate of new construction again increased and surpassed most previous records. Higher property value land use development dominated, especially multi-family dwellings, garden apartments, and commercial and industrial park construction. The extension of the sewer line into a rural section of the Township resulted in a large development of single-family dwellings.

The in-migration residents tended to be older, wealthier, and have fewer children than those of previous growth periods. From 1980 to 1990, the retirement age group (age 65+) staged a gain of 11.7%. The productive age group (age 20 to 44) showed a small gain, while the school age group (age 0 to 19) and the mature age group (age 45 to 64) had declines of 5.2% and 9.7%, respectively.

The 2000 census figures show a 14% increase in population for Lower Allen Township from 1990 to 2000. Cumberland County has also experienced growth of about 10% from 1990 to 2000. The 2000 population count for Cumberland County and Lower Allen Township are 213,674 and 17,437, respectively. The 1990 count was 195,257 for the county and 15,254 for the Township.

The following is a list of the top five employers within a ten-mile radius of the Township<sup>1</sup>.

Commonwealth of PA	Government
United States Government	Government
Giant Food Store	Retail Grocery
Highmark Blue Shield	Health Care
Tyco Electronics	Manufacturing

In 2007, the employer list was refined to concentrate on businesses closer to the Township's border. The Commonwealth of Pennsylvania has remained on top of the list for quite some time. Giant Food Stores has increased their number of employees making them the third top employer in the area. Highmark Blue Shield has once again made the top five list. Returning to the list this year is Tyco Electronics, a design and manufacturing business located in Harrisburg.

Traditionally the Harrisburg Area, due to a high percentage of employees in non-cyclical industries, does not show a big fluctuation in unemployment rates. The unemployment rate for the Harrisburg Area in 2007 was 3.6%. This is a 0.2% decrease from the previous year, compared to a 0.2% and a 0% decrease for Pennsylvania and the Nation, respectively. Cumberland County had an unemployment rate of 3.2%, which was a 0.5% increase in the rate. Cumberland County ranked the second lowest among the sixty-seven counties in Pennsylvania, and essentially represents full employment. At year-end the unemployment rates were as follows: 3.2% for Cumberland County, 4.4% in Pennsylvania, and 4.6% for the rest of the nation<sup>2</sup>. Local unemployment rates are now 70% of national figures; new employers are being sought to relocate to the area to take advantage of the available workforce. With the help of state and federal government employment, the area is able to keep unemployment rates lower than other areas across the country.

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<sup>1</sup>West Shore Tax Bureau & Central Penn Business Journal

<sup>2</sup> Center for Workforce Information and Analysis

Based on tax revenue, Lower Allen Township appears to have had an increase of about 1,000 jobs in 2007. Part of the increase can be attributed to several new retail establishments, a new trucking depot and the conversion of a vacant manufacturing company subdivided into distribution centers. Also, out of area employers have become better educated in collecting the tax at local branches. Per Capita income of Township residents decreased insignificantly by 0.2% in 2007 to \$17,746. This consistency in Per Capita income shows that the Township population mix is stabilizing with more two-income families and less retirees on limited income. New home construction averaging \$385,038 per home has also attracted residents with higher incomes. Sale of existing homes has remained very static over the last several years with the average resale price being \$172,837. Lower Allen Township's housing market is very stable with available homes turning over quickly due to the desirability of the residential community.

The Middle District of Pennsylvania had an increase in total bankruptcy filings of 38.8% from 5,558 in 2006 to 7,715 in 2007. Compared with the entire state, the Middle District filings had the biggest percentage increase while the Western District registered the most filings, with 11,702. The Eastern District filings were 9,785 which was a -35.8% decrease from 2006. Overall, the bankruptcy filings in PA increased in 2007 due to the weakening economy, rising interest rates and defaults on monthly mortgage payments.

In 2007, the number of permits for construction increased by 3.52% from 2006, however, the overall value of construction decreased by \$2,812,701. The value for new nonresidential construction decreased \$11,384,419 from 2006 to 2007. Nine million dollars of this decrease is attributable to the construction permit for the new Township building which was issued very late in 2006. Over the past 10 years, the number of permit applications increased at a moderate rate given the area's access to transportation routes, with more than half of the nation's big consumer markets within only a two-day delivery area.

The long-term outlook remains favorable, as is almost always the case in the recession-resistant Harrisburg area. One major reason for this is the high level of government sector employment. Local economists agree the Harrisburg area is not over built and the Harrisburg-Lebanon-Carlisle area is seen as a location with much growth potential.

#### Major Initiatives

Construction on the new Lower Allen Township Municipal Services Center was the most major initiative of 2007. The building has three levels and consolidates the public safety services and administrative offices into one facility. Through a committed effort by both the staff and the contractors, and many hours of work, the original bid of \$9.9 million was reduced to a \$9.5 million project including contingencies. Late in 2006, the Board of commissioners approved a restructuring of the bond debt with an additional \$1.5 million bond sale which took place in May 2007. The restructured bond debt retains a similar repayment schedule, so additional revenues were not necessary to service the debt. Ground breaking took place in March 2007 and construction progressed to the point that the entire building was under roof by the end of December. Construction was completed in late May of 2008.

Ordinance updates for Zoning and Subdivision/Land Development continued in 2007 incorporating changes from the 2006 Comprehensive Land Use Plan. Development of a Township-wide trail network map was completed by the Pedestrian/Bike Trails committee including assessment of all road-based trails for suitability as bike routes. Resulting from the Township's work, a multi-municipal group began planning trail networks for an expanded West Shore area. Community Development also installed new software which tracks all deeded parcels, zoning, subdivision and construction permits and enables GIS mapping. The Codes and Police Departments began development of a Highway Incident Management Plan to manage diverted traffic when incidents occur on limited access highways which pass through the Township.

A boat ramp to provide access to the Yellow Breeches Creek for non-motorized boats at Lower Allen Community Park was completed and was partially funded by Pennsylvania Fish and Boat Commission grant money. Sheepford Crossing Park (one of the Township's neighborhood parks) had an old yard hydrant replaced with a new ADA-compliant drinking fountain.

In March 2007, with some re-alignment of departmental duties and completion of field training by new officers, the Police Department was up to its full compliment of 22 sworn officers. This allowed for the creation of a Traffic Safety Unit, reassigning two officers to be dedicated to traffic related activities. Duties of this unit will include addressing neighborhood traffic complaints, handling crashes for patrol, reconstruction of serious crashes, selective traffic enforcement details and working with the Township Engineer in conjunction with the Traffic Calming Committee. The Police Chief retired in July 2007 after 12 years as chief and 31 total years of public service. During his tenure, the police department earned its initial accreditation in 1995 and their state accreditation in 2005. Upon the Chief's retirement, the Public Safety Director became the Acting Chief.

Through a legislative initiative grant, the Police Department purchased a KidPrint ID System which provides parents with a photo identification card giving them their child's important vital statistics at their fingertips. The system also provides the Police Department with a helpful tool for tracking a missing child more accurately and efficiently.

In 2007, the EMS department replaced its second re-chassised ambulance with a new ambulance, custom-designed using mostly LED emergency lighting to increase visibility and reduce the electrical draw on the system. Scheduled staffing of the second ambulance was implemented for three quarters of 2007 based on historical data showing heavy call volume.

### Accounting Systems and Budgetary Control

The Township has a commissioner-manager form of government with five commissioners comprising the governing body. The Commissioners are elected at-large for staggered four-year terms. The Township Manager is appointed by, and serves at the pleasure of, the Board of Commissioners. The Board of Commissioners annually adopts a balanced budget and establishes a tax rate for the support of the Township programs. The Township Manager has the responsibility of administering these programs in accordance with policies and the annual budget adopted by the Board of Commissioners.

The budgets are adopted for each department and are an integral part of the accounting systems, providing management control over expenditures in the general fund and other governmental funds.

Encumbrance accounting is used to record an estimated amount for approved purchase orders, contracts and other commitments released to vendors.

Commitments that would result in an over-expenditure of budget by more than 25% for each department, or 10% for each fund, are not approved for release until additional appropriations are made available. The Board of Commissioners must formally approve these appropriations. Encumbrances outstanding at year-end are reported as reservations of fund balance since they are neither expenditures nor liabilities. The Township maintains all of its financial management systems through a computer system, which was installed in 2002 with a version upgrade in 2006. The Fixed Assets module was implemented in the existing financial computer system in 2005. Township also uses personal computers with spreadsheet software to perform financial analysis.

All accounting systems are designed to enhance internal accounting controls. The controls are in place to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss of unauthorized use or disposition, and the reliability of the financial data used in preparing financial statements.

The relationship of the internal control to basic management responsibilities emphasizes the interlock of the accounting system with all other management control systems. We believe that the Township's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The Township's budget policy calls for elected officials to provide direction on goals, service levels, fund balance levels, and service effort and accomplishment measurements. Citizens, elected officials and staff work together to determine the best ways to fund these service levels. Each department has flexibility during the year to move amounts among their line items so that the unexpected can be managed and opportunities taken. Strict controls are in place, however, to assure that the departments do not exceed their total budget without prior approval. The goal of this policy is to incorporate team management and to provide the best uses of scarce resources.

#### Debt Administration

Lower Allen Township has three General Obligation Bond Series totaling \$13,475,000. General Obligation Bond-Series 2007 for \$3,160,000, scheduled to retire in 2025, was issued to restructure the Series 2005 bond to defer principal payments and to provide additional capital for construction. General Obligation Bond-Series 2005 for \$8,435,000, scheduled to retire in 2025, is to be used for the construction of the new Municipal Services Center to be completed in early 2008. The General Obligation Bond- Series 2003, scheduled to be retired in 2011, has a principal balance of \$1,880,000. Lower Allen Township acquired a new Master Capital Lease totaling \$439,000 for the purchase of new capital equipment and vehicles. Township has four existing capital leases outstanding; one Pennsylvania State Bank lease with a year-end balance of \$26,107 and three SunTrust Bank leases with year-end balances totaling \$753,639.

Referring to the 2000 Census population figures, the total outstanding debt equates to approximately \$817 per resident, which is about 4.6% of per capita personal income. Total debt is about 1.10% of assessed and market property valuation.

Debt service expenditures for the General Fund were solely the result of capital leases. The Township's cash position at January 1, 2007 again allowed us to fore go the sale of a Tax Anticipation Note. This was the twelfth year in a row and was the result of managed fund balance growth.

The Township's remaining legal limit for debt, that is debt neither approved by voter referendum nor by self-liquidating user fees, is \$10,331,692 (see Schedule 13 in Statistical section and footnote 6 to the financial statements). In the event of a national or civil catastrophe, an additional percentage may be borrowed over and above the legal limit. No limit applies to voter approved or self-liquidating debt.

## Employee Pension Plans

The Township maintains two pension plans for its full-time employees. One plan is for the uniformed officers and the other for all other employees. The Principal Financial Group is the administrator for both plans. They also provide investment trusteeship and actuarial services.

Information on the current and historical status of each plan is presented in the notes to the financial statements. Future contribution requirements will be determined by the actuaries, and will be influenced by funded status, investment performance, salary assumptions, benefit levels and contribution rates.

The Police Plan is 112.07% funded, while the Non-Uniformed Plan is 102.76% funded. Funding percentages placed both plans in over-funded positions. This means that the annual Township contributions will be reduced 10% of the over-funded amount until actuarial accrued liabilities equal plan assets. In 2002, the Pennsylvania legislature passed Act 30, which mandates certain enhancements to all police pension plans. This Act could have a negative impact on the Police Plan funding status, and significant increases in the adjusted contributions to the Plan could be required to make any shortfall.

The actuaries must use certain assumptions in order to estimate how the needs of the plan will develop over time. The two most important assumptions are for expected investment performance and expected benefit salary increases. The following shows short-term trend data comparing actuarial assumptions to the actual results. Remember, however, that the assumptions are meant to measure long-term averages. Performances cannot be adequately measured with only a few years' data.

<b>Investment Performance</b>	<b>Actuarial Assumptions</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>6-year Average</b>
<b>Police Pension</b>	7.75%	7.64%	12.08%	8.75%	11.81%	16.2%	-5.17%	8.55%
<b>Township Pension</b>	7.75%	7.28%	12.09%	8.53%	11.54%	15.31%	-2.62%	8.69%

<b>Salary Increase (Inflation and Market)</b>	<b>Actuarial Assumptions</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>3-year Average</b>
<b>Police</b>	5.00%	3.00%	4.00%	4.00%	3.67%
<b>Township</b>	4.75%	3.36%	5.15%	3.26%	3.92%

The actuarial assumption for investment performance, 7.75% for both plans, is much more optimistic than the average assumption for all public pension plans of 4.75%. The salary assumptions of 5.00% and 4.75% for both plans are slightly less than the national average for public plans. Both the police and Township salary percentages decreased in 2007 based a new contract agreement for police and Township increase more in line with private sector salaries for similar positions.

A change in benefits, or contributing amounts above or below the actuarially determined need, will, of course, also impact future contribution requirements. These elements are being prudently controlled by Township elected officials and management where possible.

The municipalities in Pennsylvania are fortunate that the state shares foreign casualty insurance premium tax revenue. This revenue can only be used to fund municipal pension plans. Each approved municipality receives a share of this revenue according to a formula applied by the Commonwealth of Pennsylvania. This formula is based on the total available for distribution, the number of units (members) in the pension plan, and the unit value.

The actuarially determined contribution rate before adjustments (normal cost) as a percent of payroll is 13.76% for the police plan and 5.20% for the Township plan. Both rates are below the national average for all municipalities of 16.0%.

The Township also sponsors a pension plan for volunteer firefighters called the Volunteer Fireman's Service Award Program (VFSAP). If a firefighter reaches a certain level of service credits in any given year, he/she will be eligible for benefits for that year. Each eligible firefighter will receive as a monthly retirement income, \$5 for every year of eligibility.

A.G. Edwards & Sons, a division of Wachovia Securities, provides investment trusteeship for the VFSAP, and actuarial services are provided by Hagedorn Actuarial Services. In 2007, the VFSAP earned a 7.19% rate of return resulting from a re-mix of investments. After five full years of existence, the VFSAP Plan is now 48.06% funded which makes the plan's funding status good at this point. The interest assumption used for this Plan is 7%. The Township's contribution in 2007 was \$18,000 which was 16% more than the planned contribution to meet emerging liabilities as outlined by the actuarial report.

#### Cash Management

The Township invests all temporary cash surpluses. Some investments are classified for reporting purposes as cash in the bank rather than investments. They consist of short-term repurchase agreements, certificates-of-deposit, money market accounts, and demand deposits. The rest are classified as investments on the statement of net assets/balance sheet and consist of government and agency securities. The main objectives are safety and liquidity. All are held by an agent of the Township in the Township's name and/or are fully collateralized or insured against loss by the federal government.

Pension fund assets are pooled by the pension administrator and invested in the administrator's name. The pool invests primarily in mutual funds, commercial mortgages and bonds. They are classified for reporting purposes as investments. Funds held for short terms prior to payout are sometimes held in Certificates of Deposit.

It is the policy of the Township to obtain quarterly and annual financial statements for every institution in which Township funds are held. Township staff carefully reviews these statements. In 2007, pension investments returned an average annual rate of 7.37%. The governmental fund investments averaged a return of 4.88%, while the lease purchase escrow account averaged 1.57%.

#### Risk Management

A committee of the Township's Commissioners and management meet annually to review insurance coverage with the Township's insurance brokers.

The following is a summarization of the kind and amount of insurance in force at December 31, 2007:

Insurance Type	Maximum Policy Limit	Deductible or Retention
PROPERTY and BODILY INJURY:	RC	2500
Auto		
Collision	ACV or COR	\$1,000
Comprehensive	ACV or COR	\$500
Uninsured Motorist	\$35,000	\$0
Boiler and Machinery Breakdown	\$750,000	\$2,500
Building and Personal Property	\$45,795,858	\$2,500
Contractor's Equipment		
Leased	\$75,000	\$1000
Owned	\$1,142,648	\$1000
Employee Dishonesty	\$100,000	\$1,000
Crime	\$10,000	\$500
Mobile Property	\$50,000	\$2,500
Money and Securities	\$10,000	\$2,500
Valuable Papers	\$100,000	\$2,500
LIABILITY and WORKMEN'S COMP.		
Auto	\$1,000,000	\$0
Benefit Plan Administration	\$3,000,000	\$1,000
General	\$2,000,000	\$0
Owners and Contractors	\$2,000,000	\$0
Police Professionals	\$1,000,000	\$5,000
Public Officials	\$1,000,000	\$5,000
Umbrella	\$2,000,000	\$10,000
Workmen's Compensation	\$1,000,000	\$0

ACV or COR = the lesser of the actual cash value or cost of repair.

#### Independent Review

Included in the financial section is the independent auditor's opinion, which is a significant part of the Comprehensive Annual Financial Report. In this report, the firm of Maher Duessel, CPAs, expresses its opinion that the financial statements contain no material misrepresentations or errors, are in compliance with accounting principles generally accepted in the United States of America, and contain no unusual uncertainties concerning future developments that cannot be reasonably estimated or resolved. The opinion is full scope and unqualified, which is the most desirable audit opinion obtainable.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lower Allen Township for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2006. The certificate of achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program

standards. Such reports 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 our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department, and we wish to express our appreciation to all members of the Department. We would also like to thank the Township Commissioners for their interest and support in planning and conducting the financial operations of the Township in a responsible and progressive manner.

Respectfully submitted,



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Thomas G. Vernau, Jr., Township Manager



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Nancy D. Dietel, Finance Director