

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For Fiscal Year Ended December 31, 2007

The following is a discussion of the financial picture of Lower Allen Township, Cumberland County, Pennsylvania. We offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

**Financial Highlights**

Government-wide net assets of the Township at the close of the year were \$8,965,287. The Township's total net assets increased by \$1,952,120 from December 31, 2006, the end of the previous fiscal year. The major portion of the increase is attributable to the increase in capital assets from the partial construction of the Municipal Services Center.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$6,944,033, a decrease of \$4,000,909 which is directly related to the partial construction of the Municipal Services Center. Approximately 31.8% of this total amount, \$2,213,199, is available for spending at the Township's discretion. The balance of \$4,730,834, 68.2% of total fund balances at December 31, 2007, is designated for the construction completion of the Center.

At the end of the year, unreserved, undesignated fund balance for the General Fund was \$1,645,476 or 20.7% of total General Fund expenditures. This fund balance reflects an increase of \$73,762 from the prior year. Discussion of this increase is found in the Financial Analysis of Governmental Funds. The 2007 General Fund fund balance surpasses the recommended fund balance of 15% of the General Fund budgeted expenditures. This recommendation is found in the 2005 Fund Balance Policy adopted by the Lower Allen Commissioners as a measure of providing sound fiscal responsibility.

The Township's total long-term debt, excluding compensated absences, increased \$1,250,878 due to a 2007 bond issuance netting \$1.6 million, a new capital lease of \$439,000 and retirement of \$788,122 in prior year long term-debt.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements, which 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 themselves.

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

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The statement of net assets presents information on the entire Township'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 Township is improving or deteriorating.

The statement of activities presents information showing how the Township'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. Revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements demonstrate the degree to which the direct expenses of a given function are offset by program revenues, but principally supported by taxes. The governmental activities of the Township include general government, public safety, public works, and parks and recreation. The Township does not carry on business-type activities, which are activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Lower Allen Township is the only entity included in the government-wide financial statements. There are no organizations or agencies whose financial statements should be combined and presented with the financial statements of the Township.

The government-wide financial statements can be found on pages 1 through 2 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 Township, 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 Township can be divided into two categories: governmental funds, and fiduciary funds. The Township does not report any proprietary 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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-

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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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains 12 individual 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 balance for the General Fund and Capital Projects Fund, which are considered to be major governmental funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Township adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget on pages 40 and 42.

The basic governmental funds financial statements can be found on pages 3 through 6 of this report.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township carries four fiduciary funds, which includes three pension trust funds and one agency fund. Total net assets of the trust funds at December 31, 2007 are \$10,200,173.

The basic fiduciary funds financial statements can be found on pages 7 through 8 of this report.

**Notes to the financial statements** – The notes provide additional information that is essential for 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 9 through 39 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 Township's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the General Fund. The required supplementary information can be found on pages 40 through 46 of this report.

Other supplementary information, including the combining statements referred to earlier in connection with non-major governmental funds and pension trust funds, is presented

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immediately following the notes to the financial statements and the required supplementary information.

Other supplementary information can be found on pages 47 through 61 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Township's total net assets have increased from a year ago. Table 1 reflects total net assets of \$7,013,167, which represents an increase of \$1,987,211 from 2006. The major portion of the increase is attributable to the increase in capital assets from the construction in progress of the new Municipal Services Building.

**TABLE 1 – NET ASSETS**

	Governmental Activities 2007	Governmental Activities 2006	Increase (Decrease) Over Prior Year
Current and other assets	\$10,253,495	\$12,051,542	(\$1,798,047)
Capital assets	\$15,755,641	\$8,720,324	\$7,035,317
<b>Total assets</b>	<b>\$26,009,136</b>	<b>\$20,771,866</b>	<b>\$5,237,270</b>
Non-current liabilities outstanding	\$14,533,858	\$13,262,108	\$1,271,750
Other liabilities	\$2,509,991	\$496,591	\$2,013,400
<b>Total liabilities</b>	<b>\$17,043,849</b>	<b>\$13,758,699</b>	<b>\$3,285,150</b>
Net assets:			
Invested in capital assets, net of related debt	\$8,115,638	\$4,125,162	\$3,990,476
Restricted	\$567,723	\$429,477	\$138,246
Unrestricted	\$281,926	\$2,458,528	(\$2,176,602)
<b>Total net assets</b>	<b>\$8,965,287</b>	<b>\$7,013,167</b>	<b>\$1,952,120</b>

The Township's investment in capital assets (land, buildings and improvements, equipment and prospective infrastructure), less any related debt used to acquire those assets that is still outstanding, was \$8,115,638 at the end of the year. The Township uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Township'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.

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**Governmental Activities**

Table 2 highlights the Township's revenues and expenses for the fiscal year ended December 31, 2007 and shows a comparison with prior year 2006. These two main components are subtracted to yield the changes in net assets. This table utilizes the full accrual method of accounting which takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. The amount of change in net assets for 2006 and 2007 is only about a \$35,000 decrease. This decrease is attributable to the fact that revenues increased by 5.1% while expenditures increased by 6.7%. Revenue increase factors are linked to grants for park improvements, more aggressive cash investments and refunds from insurance trusts based on claim history. Expense increases are based on increased personnel benefit costs and operating costs affected by rising petroleum-based products.

**TABLE 2 – CHANGES IN NET ASSETS**

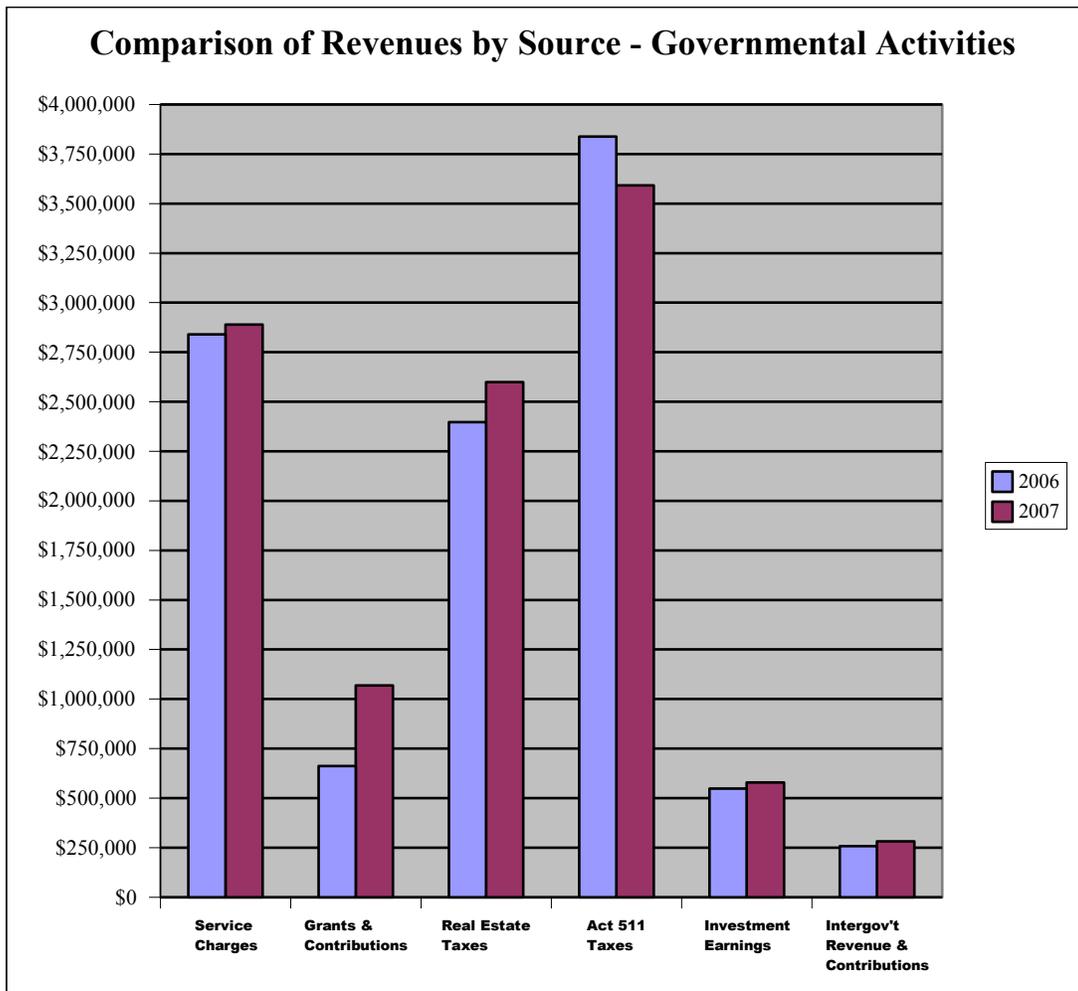
	Governmental Activities 2007	Governmental Activities 2006	Increase (Decrease) Over Prior Year
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$2,889,455	\$2,839,507	\$49,948
Operating grants and contributions	\$447,799	\$404,929	\$42,870
Capital grants and contributions	\$620,863	\$256,600	\$364,263
<b>General revenues:</b>			
Real Estate taxes	\$2,598,463	\$2,397,573	\$200,890
Other taxes	\$3,591,351	\$3,838,222	(\$246,871)
Investment earnings	\$578,576	\$547,979	\$30,597
Intergovernmental revenue and contributions	\$281,447	\$258,543	\$22,904
Other	\$78,632	\$1,788	\$76,844
<b>Total revenues</b>	<b>\$11,086,586</b>	<b>\$10,545,141</b>	<b>\$541,445</b>
<b>Expenses:</b>			
General government	\$1,637,624	\$1,497,459	\$140,165
Public safety	\$4,696,013	\$4,384,957	\$311,056
Public works	\$1,939,739	\$1,747,713	\$192,026
Parks and recreation	\$468,551	\$446,772	\$21,779
Interest on long-term debt	\$392,539	\$481,029	(\$88,490)
<b>Total expenses</b>	<b>\$9,134,466</b>	<b>\$8,557,930</b>	<b>\$576,536</b>
Changes in net assets	\$1,952,120	\$1,987,211	(\$35,091)
Net assets, beginning	\$7,013,167	\$5,025,956	\$1,987,211
Net assets, ending	\$8,965,287	\$7,013,167	\$1,952,120

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Revenue is further divided into two major components: Program Revenue and General Revenue. Program revenue is defined as charges for services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment earnings, intergovernmental revenue and contributions and other unrestricted revenue sources.

Graph 1 shows the two-year comparison of the total government activities revenues allocated by each source. As noted all sources of revenue except Act 511 taxes increased in 2007 from 2006 levels. While most of the increases from 2006 to 2007 are immaterial, Grants and Contributions increased due to an infrastructure improvement grant for Lower Allen Community Park in line with the recently completed Park Comprehensive Plan. The decrease in Act 511 taxes came from less revenue in prior year Earned Income Taxes and is explained later in this report under Financial Analysis of the Government's Funds.



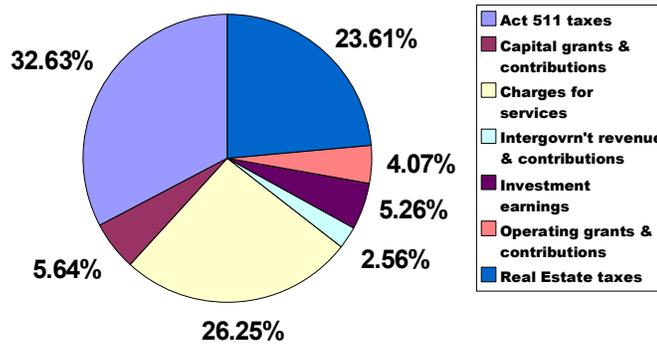
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Graph 2 shows 2007 revenue sources for governmental activities indicating employment-related taxes, charges for services and real estate taxes as the major sources for funding.

**Revenues by Source - Governmental Activities**



Tax revenues at 56.24% still constitute most of the Township’s revenue source. Efforts are being made to continue to increase charges for services and grant revenue to reduce the reliance on tax revenue.

Table 3 discloses the cost of services for Governmental Activities. The total cost of services column contains all costs related to the programs and the net cost column shows the total amount not covered by program revenues. Net costs are costs that must be covered by local taxes or other general revenue or transfers.

**TABLE 3 - GOVERNMENTAL ACTIVITIES**

	TOTAL COST OF SERVICES – 2007	NET COST OF SERVICE – 2006	% Net Cost To Total
<b>Programs:</b>			
General Government	\$1,497,459	\$1,344,719	
Public Safety	\$4,384,957	\$2,913,559	
Public Works	\$1,747,713	(\$35,466)	
Parks and Recreation	\$446,772	\$353,053	
Interest on long-term debt	\$481,029	\$481,029	
<b>Total</b>	<b>\$8,557,930</b>	<b>\$5,056,894</b>	<b>59.09%</b>

	TOTAL COST OF SERVICES – 2007	NET COST OF SERVICE – 2007	% Net Cost To Total
<b>Programs:</b>			
General Government	\$1,637,624	\$1,363,770	
Public Safety	\$4,696,013	\$3,316,458	
Public Works	\$1,939,739	(\$254,931)	
Parks and Recreation	\$468,551	\$358,513	
Interest on long-term debt	\$392,539	\$392,539	
<b>Total</b>	<b>\$9,134,466</b>	<b>\$5,176,349</b>	<b>56.67%</b>



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1. Actual revenues were \$124,063 or 1.6% less than budgeted. Prior year Earned Income Tax (EIT) revenues contributed to this deficit since reconciliation of 2006 actual tax returns revealed a change in status of a major taxpayer resulting in approximately \$266,000 less in tax revenue than previously estimated. Therefore, 2006 payments were too large since the tax collection agency bases current year monthly distributions on estimates from historical collections. Reconciliation of actual to estimates of 2006 returns was finished in September of 2007.
2. The fact that actual general fund expenditures were \$183,674 or 2.3% less than budgeted had the most effect on the positive change in fund balance. Sanitation services were less than budgeted because yard waste services were budgeted for twelve months rather than the actual eight months of service. Also payroll reductions resulted from the unexpected July retirement of the Police chief.

In addition to the two points above, higher than budgeted investment earnings and a refund based on claims experience from our health insurance trust aided in offsetting unexpected tax revenue deficits.

The \$4,212,917 Capital Projects fund balance reduction is comprised of: 1) a surplus of \$118,102 in the departmental Capital Projects accounts which fund Township major equipment purchases and park improvements funded over the years from an annual \$70,000 transfer from the General Fund and 2) a deficit of \$4,331,019 for payments to the architect and three prime contractor for construction of the Municipal Services Center. Combined with the 2006 architectural design payments, about 50% of the Municipal Services Center project is complete.

The Other Governmental Funds combined fund balances were \$567,723, an increase of \$138,246. One significant fund balance change was a \$180,558 reduction in Highway Aid since 2007 was a paving project year for Townships roads. This deficit was offset by the \$287,878 surplus in the new Fire Services Fund which is allocated .5 mill of real estate tax revenue. This purpose of the Fund is support Lower Allen's two volunteer fire companies by offsetting some operating expenses and to accumulate funds for equipment replacement.

**Capital Asset and Debt Administration**

**Capital Assets** – The Township's investment in capital assets for its government activities as of December 31, 2007 amounts to \$15,755,641 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment and prospective infrastructure. Capital assets increased by 80.6%, or \$7,035,317 in 2007.

Expenditures of \$6,126,734 associated with construction for Municipal Services Center accounted for 87% of the capital asset increase. Other acquisitions and activities during 2007 included a new ambulance, paving project and other additional rolling stock for public safety and public works.

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Comparison of Capital Assets can be found below in Table 5.

TABLE 5 - CAPITAL ASSETS	GOVERNMENTAL ACTIVITIES	
	2007	2006
Land	\$2,732,140	\$2,732,140
Construction in Progress	\$6,189,927	\$0
Land Improvements	\$1,364,839	\$1,317,934
Buildings & Improvements	\$3,774,319	\$3,774,319
Machinery & Equipment	\$6,364,303	\$6,049,601
Infrastructure	\$1,555,099	\$611,366
Accumulated Depreciation	(\$6,224,986)	(\$5,765,036)
<b>Total</b>	<b>\$15,755,641</b>	<b>\$8,720,324</b>

Additional information on the Township’s capital assets can be found in Note 5 of this report.

**Debt** – As of December 31, 2007, the Township had three General Obligation Bond Series outstanding in the amount of \$13,475,000 and capital leases totaling \$762,481. The General Obligation Bond – Series 2005 and Series 2007 totaling \$11,595,000 are reserved for the construction of a new Municipal Services Center to be complete in mid 2008. The Township paid \$788,122 in principal and \$582,071 in interest and fiscal charges on outstanding debt in 2007. Of the outstanding balance at the end of the year, the General Fund is responsible for \$473,344, the Capital Projects Fund is responsible for \$13,602,191 and Other Governmental Funds are responsible for \$161,946.

**TABLE 6  
OUTSTANDING DEBT**

	GENERAL FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL	MATURITY
General Obligation Bond-2003		\$1,880,000		\$1,880,000	2011
General Obligation Bond-2005		\$8,435,000		\$8,435,000	2025
General Obligation Bond-2007		\$3,160,000		\$3,160,000	2025
Capital Leases	\$473,344	\$127,191	\$161,946	\$762,481	2008-2012
	\$473,344	\$13,602,191	\$161,946	\$14,237,481	

Additional information about the Township’s long-term debt can be found in Note 6 of this report.

**Economic Factors and Next Year’s Budgets and Rates**

- The Township budgeted no millage increase for 2008 keeping the real estate tax rate at 2.0 mills with allocation of 1.0 mills to the General Fund, .5 mill to the Fire Services Fund and .5 mill to Capital Projects/Debt Service Fund.
- Management believes that tax revenues will remain static with very little increase due to the flat housing market. More efficient collection methods of employment-related taxes by the West Shore Tax Bureau are essential to meet budgeted

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revenues. With interest rates plummeting at the beginning of 2008, management must search out investments which give the maximum rate of return within the confines of a positive cash flow.

- Since expansion in the Township has become very limited due to past growth, redevelopment is essential in attracting businesses to the Township and to plan communities which will attract higher-income residents to be able to provide revenue to support the programs and services consistent with the needs of the residents.
- Rising energy costs must be considered in budgeting for 2008. Many energy-efficient methods were incorporated into the construction of the Municipal Services Center. Winter road maintenance is incorporating a brine system for pre-treating surfaces to save time and materials during winter storms.

Economic forecast appears to be fairly stable within the Township with unemployment slightly increasing by only .5% from 2006 to 2007 still staying below state and national figures. Close watch must be kept 2008 budgeted revenues to be able to react quickly to lower expenditures in the face of such an uncertain national economy.

All of these factors were considered in preparing the Township's budget for the 2008 fiscal year.

**Requests for Information**

These financial statements and discussions are designed to provide our citizens, taxpayers, investors and creditors with a complete disclosure of the Township's finances and to demonstrate a high degree of accountability for the public funds entrusted to us. If you have any questions about this report or need additional information, please contact Nancy Dietel, Finance Director, Lower Allen Township, 2233 Gettysburg Road, Camp Hill, PA 17011.