



City of Cumberland Maryland



City Hall Office Building, North Liberty Street

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

**Comprehensive Annual
Financial Report**

of the

**City of Cumberland
Maryland**

For the Fiscal Year Ended June 30, 2008

MAYOR
Lee N. Fiedler

COUNCIL MEMBERS

Floyd "Pete" Elliott
Harold "Butch" Hendershot

Brian K. Grim
Mary Beth Pirolozzi

CITY ADMINISTRATOR
Jeffrey E. Repp

Prepared By:
Joseph D. Urban, CPA, Comptroller

City of Cumberland
Table of Contents

	<u>Page</u>
<i>PART I – INTRODUCTORY SECTION</i>	
Letter of Transmittal	1-4
Certificate of Achievement for Excellence in Financial Reporting	5
List of Elected and Appointed Officials	6-7
Organizational Chart	8
<i>PART II – FINANCIAL SECTION</i>	
Independent Auditor’s Report	9-10
Management’s Discussion and Analysis	11-19
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-wide Financial Statements:	
Statement of Net Assets	20
Statement of Activities	21
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of the Governmental Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	25
Statement of Net Assets - Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28-29
Notes to Financial Statements	30-60

<u>REQUIRED SUPPLEMENTAL INFORMATION:</u>	<u>Page</u>
Budgetary Comparison Schedule – General Fund	61

COMBINING AND INDIVIDUAL NONMAJOR FUND FINANCIAL STATEMENTS:

Combining Balance Sheet - Non-major Governmental Funds	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-major Governmental Funds	63
Combining Statement of Net Assets Non-major Proprietary Funds	64
Combining Statement of Revenues, Expenses and Changes in Net Assets - Non-major Proprietary Funds	65
Combining Statement of Cash Flows - Non-major Proprietary Funds	66

PART III – STATISTICAL SECTION

Net Assets by Category – Government Wide – Last Six Years	67
Changes in Net Assets by Category – Government Wide – Last Six Years	68
Fund Balances – Governmental Funds – Last Six Years	69
Changes in Fund Balances – Governmental Funds – Last Six Years	70
Property Tax Levies and Collections – Last Ten Fiscal Years	71
Assessed and Estimated Actual Value of Taxable Property – Last Ten Years	72
Property Tax Rates and Tax Levies (Real Property) – Direct Overlapping Governments – Last Ten Years	73
Ten Largest Taxpayers – Current and Nine Years Ago	74-77
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years	78

Computation of Direct and Overlapping Debt	79
Ratios of Annual Debt Service Expenditures – Last Ten Fiscal Years	80
Economic and Demographic Statistics	81
Number of Employees for Ten Largest Employers – Current Year	82
Building Permits Issued and Property Values – Last Ten Fiscal Years	83
Employees by Function – Current Year	84
Capital Asset Statistics by Function – Current Year	85
Operating Indicators by Function – Current Year	86

Introductory Section

City of Cumberland

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MARYLAND

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January 28, 2009

To the Honorable Mayor, Members of the City Council,
and Citizens of the City of Cumberland, Maryland

State law requires that all general purpose local governments publish at the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) for the City of Cumberland, Maryland, for the year ended June 30, 2008.

This report consists of management's representations concerning the finances of the City of Cumberland. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Cumberland 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 City of Cumberland's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Cumberland's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Turnbull, Hoover & Kahl, PA., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Cumberland, Maryland for the fiscal year ended June 30, 2008, 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 the City's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. 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 City was 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 emphasis on internal controls and legal

requirements involving the administration of federal awards. These reports are available in the City of Cumberland's separately issued Single Audit Report.

The Management Discussion and Analysis portion of the financial statements provides greater detail regarding management's discussion of the financial condition of the City and what has transpired during fiscal year 2008. This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Cumberland is empowered to levying a property tax on both real and personal properties located within its boundaries. The City is also empowered by the state to extend its corporate limits by annexation, which occurs periodically when deemed necessary by the Mayor and Council. The Mayor and Council are responsible for the passing of ordinances, adopting the budget, appointing committees, and hiring both the City Administrator and the City Solicitor. The City Administrator is responsible for carrying out the policies and ordinances of the Mayor and Council, for overseeing day-to-day operations of the city government, and for appointing the heads of the various departments.

The City of Cumberland provides a full range of services, including water, sewer, refuse, streets and drainage, recreation and parks, police, fire, planning and zoning, and community development. The cities schools and library are operated by Allegany County, Maryland.

The City of Cumberland was incorporated in 1815. Its legal authority is derived from Article XI-E of the State Constitution and Article 23-A of the Annotated Code of Maryland. Cumberland has an estimated population of 20,758 and a land area of 9.1 square miles. The City has operated under the Council-Manager form of government since 1981.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within the City of Cumberland operates.

Economic Condition and Outlook

Cumberland is located in Allegany County of Western Maryland, equidistant from Washington, DC, Baltimore, MD, and Pittsburgh, PA. Economically, Cumberland closely resembles the Monongahela Valley (Mon. Valley) Industrial region of Western Pennsylvania and Northern West Virginia more than it does the rest of the state of Maryland. Like the Monongahela Valley, Allegany County experienced a rapid decline in high-paying manufacturing jobs during the 1980's. These losses were aggravated by the closure of Kelly Springfield (Tires), Celanese (Chemicals), and Pittsburgh Plate Glass. However, three major industrial employers: Alliant Tech (Rocket Center, MD), CSX (Cumberland, MD), and Westvaco (Luke, MD), continue to function within the region. The economy and unemployment rate of Allegany County have stabilized with a slight increase in the unemployment rates from 5.2% in 2007 to 5.5% in 2008.

This stabilization of employment has created a greater diversified job segment and has allowed for jobs in the service, retail trade and government sectors to expand and fortify the regions economy outside of the manufacturing industry. However, the region has not completely abandoned its manufacturing past, as it has been able to attract a number of light manufactures in (Hunter Douglas) and (Bayliner), along with service industries (Biospherics) and (Litton

Industries), as well as government employers Western Correctional Institute, the Federal Correctional Institute and North Branch Correctional Institute.

Even with the regions increased job opportunities and stabilized economy, median household income has remained stagnant as compared to the rest of Maryland as the State's median household income increased from \$48,550 in 1997 to \$68,080 in 2007. While Allegany County has seen its median household income increase, it still lags greatly behind the rest of the State with income of \$29,050 in 1997 to \$38,050 in 2007. The reason for this is because, although the region has seen an influx of job opportunities, these jobs are consistently lower paying than the previous high-paying manufacturing jobs of the 1980's. These economic circumstances are particularly reflected within the families of the lower end of the economic ladder. According to the 1990 U.S Census, Allegany County poverty stood at 16.5% for all residents and 24.2% for children under the age of 18. It would be expected that the increased job opportunities and stabilized unemployment rate would drastically reduce these poverty numbers, however, according to the 2000 U.S. Census, the poverty numbers have not declined; in fact, they have risen. The 2000 Census listed the overall poverty rate for Allegany County as 19.8% and 29.4% for children under the age of 18. With the regions continued economic development and continuing stabilized economy, specifically over the past five years, it is expected that these numbers will drastically decline with the 2010 Census.

Significant Financial Policies

The City has a conservative approach to investment management wherein there is a balance between maximizing return on its investments and ensuring that its investments are properly secured. To achieve this goal, the City has an investment policy that is consistent with Maryland Law and requires collateralization of 102% of market value of investments. With the exception of direct purchase of U.S. Treasury's, no more than 90% of the City's total investments may be placed at the Maryland Local Government Investment Pool and no more than 70% of the City's total investment may be placed at any one financial institution. Consistent implementation of this policy when the market is experiencing moments of volatility has preserved the foundation of the City investments. This policy is described in greater detail in Note #2 to the city's financial statement, titled "Cash and Investments."

Long Term Planning

In June 2005, the City issued its "Sustainable Economic Development Strategic Plan" that defined a program focusing the City's resources on actions that can most effectively promote a more prosperous economy. The City has made positive steps in advancing this plan with the creation and hiring of an economic development specialist and the recent hire of a city planner. The plan is available at the City's web site www.ci.cumberland.md.us.

The financial strength of the City has allowed the City to issue \$4.5 million in general obligation bonds in FY 2007. The main purpose of the bond is to fund major improvements to the City buildings and infrastructure, including George Street Garage. Revenues collected from the Parking garage will assist in repayments of the general obligation bonds.

The Western Maryland Health System is proceeding with a project cost exceeding \$268 million for the construction of a new hospital and the relocation of its administrative offices, which will all be located within the City of Cumberland. This construction project and the operation of the new hospital are expected to have a positive impact on the City's economic growth.

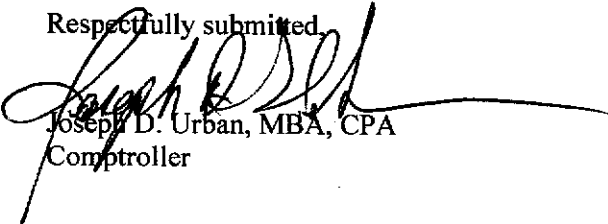
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cumberland for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the first year that the City 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 (GAAP) 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 preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Finance Office and the Tax and Utility Office. I wish to express my appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the City Administrator and the Mayor and City Council for their support in maintaining the highest standards of professionalism in the management of the City of Cumberland's finances.

Respectfully submitted,



Joseph D. Urban, MBA, CPA
Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cumberland
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Charles S. Cox

President

Jeffrey R. Emmer

Executive Director

City of Cumberland, Maryland

List of Elected Officials and Administrators with contact information

Central Contact Information:

City of Cumberland
PO Box 1702
57 North Liberty Street
Cumberland, Maryland
21501-1702
(301) 722-2000

Mayor and Council:

Lee N. Fiedler, Mayor
lfiedler@ci.cumberland.md.us

Floyd "Pete" Elliott, Councilman
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Brian K. Grim, Councilman
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Harold "Butch" Hendershot, Councilman
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Mary Beth Pirolozzi, Councilman
mbpirolozzi@ci.cumberland.md.us

Administration:

Jeffrey E. Repp, City Administrator
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Margie Eirich, City Clerk
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City of Cumberland, Maryland

List of Elected Officials and Administrators with contact information (continued)

Fire Department
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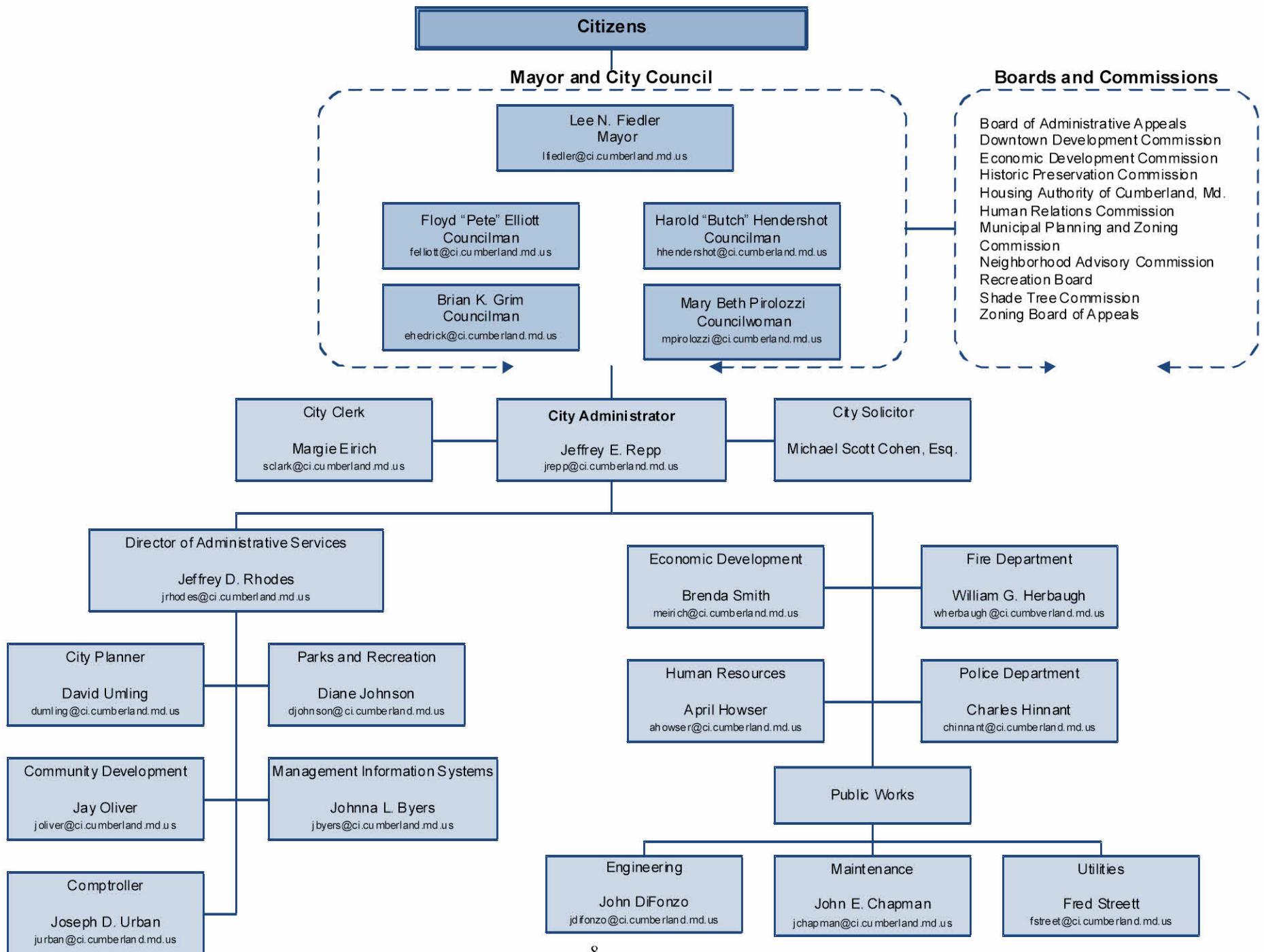
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City of Cumberland Organizational Chart

(June 2007)



Financial Section

David W. Turnbull, CPA
Richard J. Hoover, CPA
Bernard B. Kahl, CPA



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Honorable Mayor and Members
of the City Council
City of Cumberland
Cumberland, Maryland

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cumberland, Maryland (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes 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 City'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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cumberland, Maryland, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 on our consideration of the City's internal control over financial reporting and 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 important for assessing the results of our audit.

The management's discussion and analysis on pages 11 through 19 and the budgetary comparison information on page 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We 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 City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section as listed in the table of contents 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 have been subjected to the auditing procedures applied 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 and statistical sections 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.

Tumbull, Hoover & Kahl, P.A.

Cumberland, MD
January 26, 2009

CITY OF CUMBERLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Cumberland's financial performance provides an overview of the City's financial activities for the fiscal years ended June 30, 2008 and 2007, respectively. Please read this in conjunction with the basic financial statements, notes to the basic financial statements, and the required supplemental information for a complete and detailed understanding.

FINANCIAL HIGHLIGHTS

- The City's governmental activities net assets are \$13.2 million and \$15.6 million for fiscal years 2008 and 2007 respectively. The net assets of business-type activities are \$40.5 million and \$37.1 million for fiscal years 2008 and 2007 respectively. Net assets of governmental activities decreased \$2.3 million in fiscal year 2008, and increased \$.7 million in fiscal year 2007. Net assets of business-type activities increased \$3.3 million and \$.4 million for fiscal years 2008 and 2007 respectively.
- During the year, the City incurred net expenses of \$14.5 million and \$11.5 million, in comparison to the \$8.7 and \$8.7 million generated in program revenues for governmental programs for fiscal years 2008 and 2007. General revenues in the amount of \$10.9 and \$10.4 million and transfer fees of \$1.2 million and \$1.8 million with a deficit of \$2.3 million for FY 2008 and a surplus of \$.7 million for FY 2007.
- The City's business-type activities generated \$4.4 and \$2.2 million of total revenue in excess of \$12.8 and \$12.0 million of expenses for fiscal years 2008 and 2007.
- The total cost of all of the City's programs was \$36.0 million for fiscal year 2008, and \$32.1 million for fiscal year 2007. There were no new programs added in FY 2008.
- On the Fund Financial Statements, the General Fund reported a \$1.7 million deficit and \$.8 million surplus for the fiscal years 2008 and 2007.
- The City has its Worker's Compensation claims administered by a third party administrator where the City prefunded the payment of claims and has recorded this as a prepaid expense in the amount of \$1,037,914 for governmental activities and in the amount of \$313,227 for business type activities. For the government-wide statements there is a related contingent liability. This matter is explained in further detail in Note 17, "Risk Management" to the financial statements.

- In June 2008, the City received a Community Development Block Grant (CDBG), Section 108 Loan Guarantee to provide assistance to the local Human Resources Development Commission for construction of a new office facility. This loan, as described in Note 6 to the financial statements, will be repaid in semi-annual installments of \$40,446 to \$116,538 through August 2028.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements known as the basic financial statements. The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities that provide information about the activities of the City as a whole and present a long-term view of the City's finances. Also included are Fund Financial Statements. For governmental activities, these statements reflect how these services were financed in the short term, as well as what is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

REPORTING THE CITY AS A WHOLE

An analysis of the City as a whole and as to whether it is better off as a result of the year's activities is reflected in the Statement of Net Assets and the Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is actually received or paid.

These two statements report the City's net assets and changes in them. The City's net assets reflects the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator as to whether the City's financial health is improving or deteriorating. Keep in mind to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

- *Governmental Activities* – Most of the City's basic services are reported here, including the police, fire & ambulance, public works, parks and recreation department and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- *Business-type Activities* – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer systems, parking facilities, and trash collection operations are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

An analysis of the City's major funds reflected in the Fund financial statements provides detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (specific projects), or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches. Beginning in fiscal year 2005, the Housing Assistance Fund became a major governmental fund under the criteria required by GASB and for fiscal year 2007, the Municipal Parking Authority Fund became a major proprietary fund.

- *Governmental Funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be utilized in the near future to finance the City's programs. The relationship (difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is provided in the Reconciliation of the Balance Sheet to the Statement of Net Assets report on page 23.
- *Proprietary Funds* – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net assets are \$53.7 million and \$52.7 million, with total revenues of \$37.0 million and \$33.2 million and total expenses of \$36.0 million and \$32.1 million for fiscal years 2008 and 2007, respectively.

Net Assets

	Governmental Activities		Business-type Activities		Totals	
	FY08	FY07	FY08	FY07	FY08	FY07
Current and Other Assets	\$ 7,037,650	\$ 7,270,048	\$ 5,400,672	\$ 7,161,692	\$ 12,438,322	\$ 14,431,740
Capital Assets	<u>21,529,715</u>	<u>20,167,716</u>	<u>66,249,884</u>	<u>62,898,580</u>	<u>87,779,599</u>	<u>83,066,296</u>
Total Assets	<u>28,567,365</u>	<u>27,437,764</u>	<u>71,650,556</u>	<u>70,060,272</u>	<u>100,217,921</u>	<u>97,498,036</u>
Long-term Debt (net of current portion)	11,279,461	8,437,215	26,080,587	28,128,133	37,360,048	36,565,348
Other Liabilities	<u>4,078,112</u>	<u>3,448,930</u>	<u>5,116,500</u>	<u>4,798,892</u>	<u>9,194,612</u>	<u>8,247,822</u>
Total Liabilities	<u>15,357,573</u>	<u>11,886,145</u>	<u>31,197,087</u>	<u>32,927,025</u>	<u>46,554,660</u>	<u>44,813,170</u>
Net Assets:						
Invested in Capital Assets (net of debt)	14,318,412	14,091,543	38,588,994	35,809,340	52,907,406	49,900,883
Restricted	657,169	749,796	-	249,144	657,169	998,940
Unrestricted (deficit)	<u>(1,765,789)</u>	<u>710,280</u>	<u>1,864,475</u>	<u>1,074,763</u>	<u>98,686</u>	<u>1,785,043</u>
Total Net Assets	<u>\$ 13,209,792</u>	<u>\$ 15,551,619</u>	<u>\$40,453,469</u>	<u>\$37,133,247</u>	<u>\$53,663,261</u>	<u>\$52,684,866</u>

Changes in Net Assets (In Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u> <u>Primary</u> <u>Government</u>	
	FY08	FY07	FY08	FY07	FY08	FY07
Revenues						
Program Revenues						
Charges for Service	\$2.0	\$2.7	\$14.4	\$13.5	\$16.4	\$16.2
Operating Grants	5.8	5.8			5.8	5.8
Capital Grants	1.0	0.2	2.8	0.5	3.8	0.7
General Revenues:						
Property Taxes	8.7	8.3			8.7	8.3
Other Taxes	0.4	0.2			0.4	0.2
Shared Revenues	1.4	1.3			1.4	1.3
Unrestricted Investment Earnings	0.1	0.1	0.1	0.2	0.2	0.3
Miscellaneous	<u>0.3</u>	<u>0.4</u>	<u>—</u>	<u>—</u>	<u>0.3</u>	<u>0.4</u>
TOTAL REVENUES	<u>19.7</u>	<u>19.0</u>	<u>17.3</u>	<u>14.2</u>	<u>37.0</u>	<u>33.2</u>
Program Expenses						
General Government	2.8	2.5			2.8	2.5
Public Safety	11.4	10.0			11.4	10.0
Public Works	3.6	3.0			3.6	3.0
Recreation	1.2	1.0			1.2	1.0
Community Development	3.9	3.2			3.9	3.2
Interest of LT Debt	0.3	0.3			0.3	0.3
Water			5.9	5.7	5.9	5.7
Sewer			5.2	4.8	5.2	4.8
Municipal Parking Authority			0.4	0.4	0.4	0.4
Trash			1.1	1.1	1.1	1.1
Property Rental			<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
TOTAL EXPENSES	<u>23.2</u>	<u>20.0</u>	<u>12.7</u>	<u>12.1</u>	<u>35.9</u>	<u>32.1</u>
Excess Before Transfers	-3.5	-1.0	4.6	2.1	1.0	1.1
Transfers	<u>1.2</u>	<u>1.7</u>	<u>-1.2</u>	<u>-1.7</u>	<u>-</u>	<u>-</u>
Change in Net Assets	-2.3	0.7	3.3	0.4	1.0	1.1
Net Assets-Beginning	<u>15.5</u>	<u>14.8</u>	<u>37.1</u>	<u>36.7</u>	<u>52.6</u>	<u>51.5</u>
Net Assets-Ending	<u>\$13.2</u>	<u>\$15.5</u>	<u>\$40.4</u>	<u>\$37.1</u>	<u>\$53.6</u>	<u>\$52.6</u>

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$3,217,488 and \$4,926,278 million for fiscal years 2008 and 2007. This is a decrease of \$1.7 million compared to fiscal year 2007.

For the General Fund, while most operating costs remained stable in FY 2008, the City's retirement costs increased by \$557,300 for the alternate pension system, of which \$402,417 was allocated to the General Fund. There was an increase in the costs for public safety services which was primarily in the areas of salary costs attributed to the four new officers that were hired. The City incurred non-recurring expenses to acquired copier equipment at a cost of \$318,000 and also acquired a new fire truck at the cost of \$353,000.

Fiscal year 2008, showed a decrease of \$.9 million for permits due to one large permit fee for the new hospital received in the prior year. Tax revenues remained stable from the prior year and miscellaneous revenues decreased by \$.2 million.

The water fund expenses remained relatively stable but the revenue for this fund increased slightly. There was an increase of approximately \$2.4 million in capital contributions in the sewer fund for federal and state grant funds received for the construction of capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year. The second category includes changes that the Council made during the third quarter to adjust for unforeseen savings and expenses and to reflect a more accurate budget. Lastly, the Council approved several increases in appropriations to prevent budget overruns.

With these adjustments, the actual charges to appropriations (expenditures) were \$62,038 and \$28,730 below the final budgeted amounts for fiscal years 2008 and 2007.

There was a slight increase in the amount of taxes outstanding at year end of approximately \$342,000, reported as deferred revenue for outstanding personal and real property taxes. In addition, the City received two building permit fees that were not anticipated, which totaled in excess of \$100,000. The budget line for miscellaneous income included \$586,500 of income for financing proceeds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008 and 2007, the City had \$21.5 and \$20.2 million invested in a broad range of capital assets for Governmental activities and \$66.2 and \$62.8 million for the Business-type activities.

This year the City completed several capital projects in the business type activities, which major projects included \$310,207 North End Pump Station, \$31,506 for the Viaduct Pump Station Transformer and \$97,995 for the Parking Kiosk project. The major projects that are still active and had additions to Work In Process for FY 2008 are as follows: the Water Meter Network for \$2,948,042, ENR Improvements for \$820,913, Center City Garage Rehabilitation for \$1,791,394, CSO, Phase II for \$2,663,626, Rolling Mills Project for \$404,472 and \$202,190 for other capital projects.

In the Governmental activities, the City had the following active projects, Rolling Mill Access Road for \$2,040,485, Traffic Lighting for \$47,143, Craft House Renovations for \$189,316, Constitution Park for \$38,481, Security Upgrades for \$14,007, Content Management System for \$12,210, Springdale Street Parklet for \$62,772 and various Energy Savings Projects for \$488,257. In addition the City replaced machinery and equipment that cost a total of \$1,487,126, which was added to the City's Capital Assets, including a new Fire Truck in the amount of \$353,000 and copier equipment costing \$318,000. The Municipal Center HVAC Upgrade was completed and moved to fixed assets for \$80,000 for FY 2008.

Additional detail regarding Capital Assets can be found in Note 5 to the financial statements, titled "Capital Assets."

Debt

At year-end, the City had \$37.5 million and \$38.3 million in bonds, notes and leases outstanding for fiscal years 2008 and 2007.

Outstanding Debt at Year-End

	Governmental		Business-Type		Totals	
	Activities		Activities			
	FY08	FY07	FY08	FY07	FY08	FY07
General Obligation Bonds	\$5,432,996	\$5,991,982	\$24,946,950	\$26,987,965	\$30,379,946	\$32,979,947
Notes and Leases	<u>3,817,476</u>	<u>2,019,579</u>	<u>3,322,252</u>	<u>3,310,224</u>	<u>7,139,728</u>	<u>5,329,803</u>
Totals	<u>\$ 9,250,472</u>	<u>\$ 8,011,561</u>	<u>\$ 28,269,202</u>	<u>\$ 30,298,189</u>	<u>\$ 37,519,674</u>	<u>\$ 38,309,750</u>

In fiscal year 2008, the City authorized \$341,035 in Water Quality Bonds to be financed through the Maryland Water Quality Financing Administration. The amount advanced under this bond was \$130,450 at June 30, 2008.

The City obtained a Section 108 loan consisting of Community Development Block Grant funds in the amount of \$1.4 million that will be utilized to provide funding assistance for the construction of a new office facility for the Human Resources Development Commission. The City also entered into a capital equipment lease agreement in the amount of \$804,500 at an interest rate of 3.719%. The detail of the various operating leases can be found in Note 6 of the financial statements, which also includes additional detail regarding the City’s debt.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City’s elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates and fees that will be charged for the business-type activities. One of those factors is the economy. Unemployment in the City/County now stands at 5.5%, which was a .1% increase from FY 2007, but the rate has stabilized over the past ten years with unemployment decreasing from 9.3% in 1997. This compares with the State’s unemployment rate of 4.9%.

The City continues to experience a gradual increase in real property values within the City. The City was insulated from the extraordinary boom in escalating property values in the last several years, that now have declined drastically throughout other portions of the State. These indicators were taken into account when adopting the General Fund budget for 2009.

The City has added no new major programs or initiatives to the 2009 budget.

In November 2008, the City issued \$9 million in general obligation bonds to fund street and infrastructure improvements throughout the City. These bonds were rated “AAA” by both S&P and Fitch Ratings and were sold with an average interest rate of 4.54%, maturing on September 1, 2028.

CONTACT THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If there are any questions about this report or if additional financial information is needed, please contact the City Comptroller's Office at P.O. Box 1702, Cumberland, Maryland, 21502 or 57 N. Liberty Street, Cumberland, Maryland, 21502.

Basic Financial Statements

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash	\$ 346,577	\$ 163,977	\$ 510,554
Investments	979,254	137,208	1,116,462
Taxes receivable	1,030,740		1,030,740
Accounts receivable	267,869	2,347,303	2,615,172
Due from other governments	1,662,138	909,909	2,572,047
Internal balances	(761,591)	761,591	-
Prepaid expenses	1,068,163	313,794	1,381,957
Inventory	14,459	224,670	239,129
Total Current Assets	4,607,609	4,858,452	9,466,061
Noncurrent assets:			
Housing loans receivable	354,193		354,193
Loans receivable	436,656		436,656
Notes receivable	6,643		6,643
Restricted cash	150,555		150,555
Restricted investments	1,481,994	409,892	1,891,886
Property, plant and equipment:			
Land and land improvements	974,496	814,579	1,789,075
Buildings & improvements	13,332,066	84,080,850	97,412,916
Machinery and equipment	7,317,610	4,840,114	12,157,724
Infrastructure	20,477,807		20,477,807
Construction in progress	2,952,072	8,830,638	11,782,710
Accumulated depreciation	(23,524,336)	(32,316,297)	(55,840,633)
Other assets		25,000	25,000
Deferred charge		107,328	107,328
Total Non-Current Assets	23,959,756	66,792,104	90,751,860
Total Assets	\$ 28,567,365	\$ 71,650,556	\$ 100,217,921
LIABILITIES:			
Current liabilities:			
Accounts payable	1,197,468	1,809,403	3,006,871
Accrued wages	419,436	127,033	546,469
Accrued interest	112,727	214,506	327,233
Unearned revenue	350,568	-	350,568
Deposits payable	145,539		145,539
Current portion of compensated absences	789,271	232,642	1,021,913
Current portion of bonds and notes payable	1,063,103	2,732,916	3,796,019
Total Current Liabilities	4,078,112	5,116,500	9,194,612
Noncurrent liabilities:			
Bonds and notes payable (net of current portion)	8,187,369	25,337,866	33,525,235
Compensated absences (net of current portion)	1,338,490	471,026	1,809,516
Workers' comp payable	1,746,258	271,695	2,017,953
Lenders loan pool payable	7,344		7,344
Total Non-Current Liabilities	11,279,461	26,080,587	37,360,048
Total Liabilities	15,357,573	31,197,087	46,554,660
NET ASSETS:			
Investment in capital assets (net of related debt)	14,318,412	38,588,994	52,907,406
Restricted for:			
Community Development	502,318		502,318
Housing Assistance Program	30,041		30,041
Other Purposes	124,810		124,810
Unrestricted (Deficit)	(1,765,789)	1,864,475	98,686
Total Net Assets	13,209,792	40,453,469	53,663,261
Total Liabilities and Net Assets	\$ 28,567,365	\$ 71,650,556	\$ 100,217,921

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:								
General government	\$ 3,607,942	\$ (888,892)	\$ 597,521	\$ 92,029	\$ -	\$ (2,029,500)	\$ -	\$ (2,029,500)
Public safety	11,400,713		1,106,758	901,494	-	(9,392,461)		(9,392,461)
Public works	4,060,191	(445,930)	1,549	1,613,437	675,520	(1,323,755)		(1,323,755)
Recreation	1,231,744		158,651	6,978	278,290	(787,825)		(787,825)
Community development and housing	3,948,656		92,655	3,221,629	-	(634,372)		(634,372)
Interest on long-term debt	340,306					(340,306)		(340,306)
Total Governmental Activities	24,589,552	(1,334,822)	1,957,134	5,835,567	953,810	(14,508,219)	-	(14,508,219)
Business-type Activities:								
Water	5,333,966	640,715	7,624,538		-		1,649,857	1,649,857
Sewer	4,577,315	600,669	4,863,377		2,788,679		2,474,072	2,474,072
Municipal Parking Authority	408,599		648,710		-		240,111	240,111
Trash	1,025,923	93,438	1,109,411		-		(9,950)	(9,950)
Property Rental	112,660		205,172		-		92,512	92,512
Total Business-type Activities	11,458,463	1,334,822	14,451,208	-	2,788,679	-	4,446,602	4,446,602
Total Government	\$ 36,048,015	\$ -	\$ 16,408,342	\$ 5,835,567	\$ 3,742,489	\$ (14,508,219)	\$ 4,446,602	\$ (10,061,617)
General Revenues:								
Taxes:								
Property taxes						\$ 8,678,886		\$ 8,678,886
Franchise Fees						247,550		247,550
Other Taxes						178,467		178,467
Shared revenues						1,430,311		1,430,311
Unrestricted investment earnings						115,410	104,431	219,841
Miscellaneous						284,957		284,957
Transfers						1,230,811	(1,230,811)	-
Total General Revenues and Transfers						12,166,392	(1,126,380)	11,040,012
Change in Net Assets						(2,341,827)	3,320,222	978,395
Net Assets - Beginning						15,551,619	37,133,247	52,684,866
Net Assets - Ending						\$ 13,209,792	\$ 40,453,469	\$ 53,663,261

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General Fund</u>	<u>Housing Assistance Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 47,816	\$ 25	\$ 298,736	\$ 346,577
Investments	128,911		850,343	979,254
Taxes receivable	1,019,929		10,811	1,030,740
Accounts receivable	250,317		17,552	267,869
Due from other governments	696,621	162,435	803,082	1,662,138
Interfund receivables	318,722	-	36,354	355,076
Prepaid expenditures	1,059,681	-	8,482	1,068,163
Inventory	14,459			14,459
Restricted cash	150,555			150,555
Restricted investment	80,369		1,401,625	1,481,994
Housing loans receivable			354,193	354,193
Loans receivable			436,656	436,656
Notes receivable			6,643	6,643
Total Assets	\$ 3,767,380	\$ 162,460	\$ 4,224,477	\$ 8,154,317
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 777,732	\$ 151	\$ 419,585	\$ 1,197,468
Accrued wages	391,492	4,597	23,347	419,436
Interfund payables	378,760	170,221	567,686	1,116,667
Deferred revenue	1,342,595	-	707,780	2,050,375
Lenders loan pool payable			7,344	7,344
Deposits payable	145,539			145,539
Total Liabilities	3,036,118	174,969	1,725,742	4,936,829
FUND BALANCES:				
Fund balances (deficit):				
Reserved for restrictions	80,369	30,041	1,401,625	1,512,035
Reserved for long-term assets	171,894		446,923	618,817
Reserved for inventories	14,459			14,459
Reserved for prepaids	1,059,681	-	8,482	1,068,163
Reserved for encumbrances	119,504		25,503	145,007
Unreserved:				
Undesignated-General Fund	(714,645)			(714,645)
Undesignated-Special Revenue Funds		(42,550)	(5,014)	(47,564)
Undesignated-Capital Projects Fund			621,216	621,216
Total Fund Balances (Deficit)	731,262	(12,509)	2,498,735	3,217,488
Total Liabilities and Fund Balances	\$ 3,767,380	\$ 162,460	\$ 4,224,477	\$ 8,154,317

CITY OF CUMBERLAND, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

Fund Balances - Total Governmental Funds \$ 3,217,488

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental Capital Assets	45,054,051	
Less: Accumulated Depreciation	<u>(23,524,336)</u>	21,529,715

Long-term liabilities, including a portion of compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental Bonds and Notes Payable	(9,250,472)	
Compensated Absences	(2,127,761)	
Workers Compensation	(1,746,258)	
Accrued Interest	<u>(112,727)</u>	(13,237,218)

Deferred revenue reported on modified accrual basis of accounting in governmental funds is susceptible to full accrual on the entity-wide statements.

Deferred Revenue		<u>1,699,807</u>
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Net Assets of Governmental Activities \$ 13,209,792

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Housing Assistance Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 8,534,180	\$ -	\$ 245,560	\$ 8,779,740
Licenses and permits	274,909			274,909
Intergovernmental	3,846,060	2,057,496	2,105,819	8,009,375
Charges for services	1,282,905		49,022	1,331,927
Fines and forfeitures	375			375
Interest	43,927		75,026	118,953
Miscellaneous	460,218	440	75,850	536,508
Total Revenues	<u>14,442,574</u>	<u>2,057,936</u>	<u>2,551,277</u>	<u>19,051,787</u>
Expenditures:				
Current:				
General government	1,933,448		270,188	2,203,636
Public safety	10,205,111		158,988	10,364,099
Public works	3,055,806		31,820	3,087,626
Recreation	973,576		173,472	1,147,048
Community development and housing	599,068	2,089,064	1,402,801	4,090,933
Capital Outlay			2,077,914	2,077,914
Debt service:				
Principal	839,453	3,975	59,160	902,588
Interest	306,500		26,258	332,758
Total Expenditures	<u>17,912,962</u>	<u>2,093,039</u>	<u>4,200,601</u>	<u>24,206,602</u>
Revenues in Excess of (Less Than) Expenditures	<u>(3,470,388)</u>	<u>(35,103)</u>	<u>(1,649,324)</u>	<u>(5,154,815)</u>
Other Financing Sources (Uses):				
Transfers-in	1,341,615	-	305,597	1,647,212
Transfers-out	(350,926)		(130,861)	(481,787)
Issuance of debt	820,600	24,000	1,436,000	2,280,600
Total Other Financing Sources	<u>1,811,289</u>	<u>24,000</u>	<u>1,610,736</u>	<u>3,446,025</u>
Net Change in Fund Balance	(1,659,099)	(11,103)	(38,588)	(1,708,790)
Fund balance, beginning (as restated)	<u>2,390,361</u>	<u>(1,406)</u>	<u>2,537,323</u>	<u>4,926,278</u>
Fund balance (deficit), ending	<u>\$ 731,262</u>	<u>\$ (12,509)</u>	<u>\$ 2,498,735</u>	<u>\$ 3,217,488</u>

CITY OF CUMBERLAND, MARYLAND
RECONCILIATION OF THE STATEMENT OF THE GOVERNMENTAL REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (1,708,790)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlays exceed depreciation in the current year.

Expenditures for Capital Assets	3,036,705	
Contributed Capital Assets from Proprietary Funds	155,783	
Accumulated Depreciation of Contributed Capital Assets	(90,397)	
Donated Capital Assets	26,498	
Loss on Sale/Disposal of Capital Assets	(196,560)	
Less: Current Year Depreciation	(1,570,030)	1,361,999

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments in the current year.

Bond and Loan Proceeds	(2,280,600)	
Gain on Write-off of Debt Principal	139,101	
Principal Payments	902,588	(1,238,911)

Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

Deferred Revenue		497,567
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	(93,671)	
Workers compensation	(1,152,473)	
Accrued interest adjustment	(7,548)	(1,253,692)

Change in Net Assets of Governmental Activities \$ (2,341,827)

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS				
	Water Fund	Sewer Fund	Municipal Parking Authority	Non-Major Proprietary Funds	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 26,079	\$ 44	\$ 6,817	\$ 131,237	\$ 163,977
Investments	119,778	17,430	-	-	137,208
Accounts receivable	1,275,533	910,612	42,660	118,498	2,347,303
Due from other governments	-	902,246	-	7,663	909,909
Prepaid expenses	313,794	-	-	-	313,794
Inventory	223,157	1,513	-	-	224,670
Interfund receivables, current	838,227	627,767	84,557	-	1,550,551
Total Current Assets	<u>2,796,568</u>	<u>2,459,612</u>	<u>133,834</u>	<u>257,398</u>	<u>5,647,412</u>
Noncurrent Assets:					
interfund receivables, non-current	80,066	355,954	-	-	436,020
Restricted investments	191,423	127,103	91,366	-	409,892
Land and land improvements	187,634	446,208	180,737	-	814,579
Buildings and improvements	42,059,430	36,768,748	3,968,879	1,283,793	84,080,850
Machinery and equipment	2,546,491	1,935,132	358,491	-	4,840,114
Accumulated depreciation	(14,501,847)	(15,739,757)	(1,643,829)	(430,864)	(32,316,297)
Construction in progress	1,890,192	5,149,051	1,791,395	-	8,830,638
Deferred charge	75,327	13,030	18,702	269	107,328
Evitts Creek Water Company, capital stock	25,000	-	-	-	25,000
Total Non-Current Assets	<u>32,553,716</u>	<u>29,055,469</u>	<u>4,765,741</u>	<u>853,198</u>	<u>67,228,124</u>
Total Assets	<u>\$ 35,350,284</u>	<u>\$ 31,515,081</u>	<u>\$ 4,899,575</u>	<u>\$ 1,110,596</u>	<u>\$ 72,875,536</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	231,051	1,406,242	118,974	53,136	1,809,403
Accrued wages	58,608	61,489	6,936	-	127,033
Accrued interest	120,536	59,175	33,815	980	214,506
Interfund payables, current	288,682	335,459	126,549	10,900	761,590
Current portion of compensated absences	106,192	113,776	12,674	-	232,642
Current portion of bonds and notes payable	1,856,647	577,304	291,539	7,426	2,732,916
Total Current Liabilities	<u>2,681,716</u>	<u>2,553,445</u>	<u>590,487</u>	<u>72,442</u>	<u>5,878,090</u>
Noncurrent Liabilities:					
Compensated absences (net of current portion)	209,980	235,573	25,473	-	471,026
Workers' comp. claims payable	117,618	154,077	-	-	271,695
interfund payables, non-current	-	-	159,055	304,335	463,390
Bonds and notes payable (net of current portion)	16,845,620	5,920,316	2,523,393	48,537	25,337,866
Total Non-Current Liabilities	<u>17,173,218</u>	<u>6,309,966</u>	<u>2,707,921</u>	<u>352,872</u>	<u>28,543,977</u>
Total Liabilities	<u>19,834,934</u>	<u>8,863,411</u>	<u>3,298,408</u>	<u>425,314</u>	<u>32,422,067</u>
NET ASSETS					
Invested in capital assets, net of related debt	13,671,056	22,188,865	1,932,107	796,966	38,588,994
Restricted	-	-	-	-	-
Unrestricted	1,844,294	462,805	(330,940)	(111,684)	1,864,475
Total Net Assets	<u>15,515,350</u>	<u>22,651,670</u>	<u>1,601,167</u>	<u>685,282</u>	<u>40,453,469</u>
Total Liabilities and Net Assets	<u>\$ 35,350,284</u>	<u>\$ 31,515,081</u>	<u>\$ 4,899,575</u>	<u>\$ 1,110,596</u>	<u>\$ 72,875,536</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS				Total
	Water Fund	Sewer Fund	Municipal Parking Authority	Non-Major Proprietary Funds	
Operating Revenues:					
Charges for Services:					
Domestic	\$ 2,551,030	\$ 2,763,192	\$ -	\$ 1,090,689	\$ 6,404,811
Industrial	2,133,514	423,651	-	2,647	2,559,812
Sanitary commissions	-	1,560,065	-	-	1,560,065
Water companies	2,683,056	-	-	-	2,683,056
Rents/Concessions	-	-	620,490	205,172	825,662
Connection Charges	132,296	14,940	-	-	147,236
Other	124,642	101,529	28,220	16,175	270,566
Total Operating Revenues	<u>7,624,538</u>	<u>4,863,377</u>	<u>648,710</u>	<u>1,314,583</u>	<u>14,451,208</u>
Operating Expenses:					
Personal services	2,090,973	2,274,407	197,413	-	4,562,793
Utilities	196,979	347,482	26,371	33,320	604,152
Supplies	330,006	147,231	-	25,993	503,230
Repairs and maintenance	615,755	300,812	14,644	3,356	934,567
Landfill fees	-	-	-	456,149	456,149
Depreciation	1,082,657	1,007,861	96,916	45,911	2,233,345
Contractual services	104,226	272,596	9,653	543,836	930,311
Other operating expenses	1,063,170	875,382	10,290	120,268	1,869,110
Total Operating Expenses	<u>5,483,766</u>	<u>5,025,771</u>	<u>355,287</u>	<u>1,228,833</u>	<u>12,093,657</u>
Operating Income (Loss)	<u>2,140,772</u>	<u>(162,394)</u>	<u>293,423</u>	<u>85,750</u>	<u>2,357,551</u>
Non-Operating Revenues (Expenses):					
Interest Income	55,759	24,239	24,433	-	104,431
Interest expense	(476,929)	(142,372)	(50,968)	(3,143)	(673,412)
Amortization expense	(10,777)	(1,799)	(2,344)	(45)	(14,965)
Loss on disposal of assets	(3,209)	(8,042)	-	-	(11,251)
Total Non-Operating Income (Loss)	<u>(435,156)</u>	<u>(127,974)</u>	<u>(28,879)</u>	<u>(3,188)</u>	<u>(595,197)</u>
Net Income Before Contributions and Transfers	1,705,616	(290,368)	264,544	82,562	1,762,354
Capital contributions	-	2,788,679	-	-	2,788,679
Capital contributions to governmental activities	-	(65,386)	-	-	(65,386)
Operating transfers-in(out)	<u>(545,695)</u>	<u>(586,501)</u>	<u>59,284</u>	<u>(92,513)</u>	<u>(1,165,425)</u>
Net Income (Loss)	1,159,921	1,846,424	323,828	(9,951)	3,320,222
Net assets-beginning of year	<u>14,355,429</u>	<u>20,805,246</u>	<u>1,277,339</u>	<u>695,233</u>	<u>37,133,247</u>
Net assets-end of year	<u>\$ 15,515,350</u>	<u>\$ 22,651,670</u>	<u>\$ 1,601,167</u>	<u>\$ 685,282</u>	<u>\$ 40,453,469</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS				Total
	Water Fund	Sewer Fund	Municipal Parking Authority	Non-Major Proprietary Funds	
Cash Flows from Operating Activities:					
Cash receipts from customers	\$ 7,540,185	\$ 4,752,941	\$ 596,790	\$ 1,306,231	\$ 14,196,147
Cash payments to suppliers	(2,720,411)	(1,011,656)	(230,829)	(1,174,473)	(5,137,369)
Cash payments for personal services	(2,075,505)	(2,265,747)	(202,639)	-	(4,543,891)
Other operating receipts	124,642	101,529	28,220	16,175	270,566
Net Cash Provided (Used) Operating Activities	<u>2,868,911</u>	<u>1,577,067</u>	<u>191,542</u>	<u>147,933</u>	<u>4,785,453</u>
Cash Flows from Noncapital Financing Activities:					
Operating transfers (to) other funds	(545,695)	(586,501)	59,284	(92,513)	(1,165,425)
Loans from (to) other funds	(761,210)	32,256	41,992	10,900	(676,062)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,306,905)</u>	<u>(554,245)</u>	<u>101,276</u>	<u>(81,613)</u>	<u>(1,841,487)</u>
Cash Flows from Capital and Related Financing Activities:					
Capital grant proceeds	-	2,036,637	-	(7,663)	2,028,974
Acquisition and construction of capital assets	(1,200,599)	(3,459,392)	(1,372,868)	-	(6,032,859)
Proceeds from capital debt	201,900	188,455	-	-	390,355
Principal paid on capital debt	(1,606,296)	(528,605)	(250,941)	(7,049)	(2,392,891)
Interest paid on capital debt	(404,523)	(101,808)	23,389	(3,236)	(486,178)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,009,518)</u>	<u>(1,864,713)</u>	<u>(1,600,420)</u>	<u>(17,948)</u>	<u>(6,492,599)</u>
Cash Flows from Investing Activities:					
Interest on investments	55,759	24,239	24,433	-	104,431
Net sale (purchase) of investments	1,111,579	569,258	1,289,786	-	2,970,623
Net Cash Provided (Used) by Investing Activities:	<u>1,167,338</u>	<u>593,497</u>	<u>1,314,219</u>	<u>-</u>	<u>3,075,054</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(280,174)	(248,394)	6,617	48,372	(473,579)
Cash and Cash Equivalents at Beginning of Year	426,031	265,868	-	82,865	774,764
Cash and Cash Equivalents at End of Year	<u>\$ 145,857</u>	<u>\$ 17,474</u>	<u>\$ 6,617</u>	<u>\$ 131,237</u>	<u>\$ 301,185</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(continued)

BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Municipal Parking Authority</u>	<u>Non-Major Proprietary Funds</u>	<u>Total</u>
Reconciliation of Cash to Statement of Net Assets					
Cash balance-Statement of Net Assets	\$ 26,079	\$ 44	\$ 6,617	\$ 131,237	\$ 163,977
Investment balance-Statement of Net Assets	119,778	17,430	-	-	137,208
Cash and Cash Equivalents-Statement of Cash Flows	<u>\$ 145,857</u>	<u>\$ 17,474</u>	<u>\$ 6,617</u>	<u>\$ 131,237</u>	<u>\$ 301,185</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income	\$ 2,140,772	\$ (162,394)	\$ 293,423	\$ 85,750	\$ 2,357,551
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,082,657	1,007,881	96,916	45,911	2,233,345
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	40,289	(8,907)	(23,700)	7,823	15,505
(Increase) decrease in prepaid expenses	(149,339)	1,151	-	-	(148,188)
(Increase) decrease in inventory	18,213	(617)	-	-	17,596
Increase (decrease) in accounts payable	(258,746)	578,202	(169,871)	8,449	158,034
Increase (decrease) in workers' comp. claims payable	(20,403)	153,111	-	-	132,708
Increase (decrease) in accrued wages and compensated absences	15,468	8,660	(5,226)	-	18,902
Net cash provided (used) by operating activities	<u>\$ 2,868,911</u>	<u>\$ 1,577,067</u>	<u>\$ 191,542</u>	<u>\$ 147,933</u>	<u>\$ 4,785,453</u>
Noncash operating, financing, and investing activities:					
Contribution of capital assets to government	<u>\$ -</u>	<u>\$ (65,386)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65,386)</u>
Capital contributions not yet received	<u>\$ -</u>	<u>\$ 752,042</u>	<u>\$ -</u>	<u>\$ 7,683</u>	<u>\$ 759,705</u>

The accompanying Notes to Financial Statements are an integral part of this statement

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Introduction

The City of Cumberland, Maryland (the City) was incorporated January 23, 1815. The City operates under a City-Administrator form of government per Charter Amendment #79 dated November 10, 1980 and provides the following services as authorized by its charter: public safety (police and fire), public works (maintenance, sewer, streets, water), recreation, community development and housing, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so.

The more significant accounting policies established in GAAP and used by the City are discussed below.

B. Financial reporting entity

The reporting entity includes all of the City's departments and agencies.

GASB Statement 14 defines component units as legally separate entities that are to be included in a government's reporting entity because of the significance of their operating or financial relationships with the government. The City has determined it does not have any component units required to be included in its financial statements.

C. Basic Financial Statements

The City's basic financial statements include both (1) government-wide (reporting the City as a whole) and (2) fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, recreation, public works, community development and housing, and general administrative services are classified as governmental activities. The City's water, sewer and trash services, municipal parking authority and property rental operations are classified as business-type activities.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Government-wide financial statements

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net costs of each of the City's functions and business-type activities (public safety, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public safety, public works, urban development and housing, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, or income taxes, intergovernmental revenues, interest income, etc.).

The City allocates indirect costs from the General Fund to the Water, Sewer, Trash, and certain special revenue funds. To accomplish this allocation, the General Fund charges an administrative service charge to those funds to recover the costs of General Fund services provided (finance, personnel, purchasing, legal, technology management, etc.). The government-wide financial statements present this allocation in a separate column entitled "Indirect Expense Allocation". In the fund financial statements described below, these charges are reported as expenses in the Water, Sewer, Trash and special revenue funds rather than in the General Fund.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Fund financial statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity,

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes or that have been segregated by management to account for resources.
- c. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

- a. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Major Funds – Government-wide Fund Financial Statements

GASBS No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements.

The City 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 Housing Assistance Fund accounts for the administration and payment of rent to provide improved housing for low income residents of the City of Cumberland. Funding is provided by the Department of Housing and Urban Development to the State of Maryland and then passed through to the City as a sub recipient. Approximately 500 individuals are assisted annually.

The City reports the following major proprietary funds:

The Water Fund accounts for the acquisition and maintenance of the water service provided to users within the boundaries of the City of Cumberland and certain outlying areas.

The Sewer Fund accounts for the acquisition and maintenance of the sewer service provided to users within the boundaries of the City of Cumberland and certain outlying areas.

The Municipal Parking Authority accounts for the acquisition and maintenance of the municipal parking facilities within the boundaries of the City of Cumberland, which are available for use by the public.

D. Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting and utilize the economic resource focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues when eligibility requirements have been met.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting and utilize the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Revenue sources subject to accrual include property taxes and other revenues such as income taxes, federal grants, and state grants. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

E. Financial Statement Amounts

Cash

Cash and cash equivalents in the statement of cash flows includes currency on hand, demand deposits and investments with maturities of three months or less.

Investments

Investments for all funds are reported at fair value, which is determined using selected bases. Short-term investments such as overnight repurchase agreements, repurchase agreements, and U.S. Treasury obligations are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments with the MD Local Government Investment Pool are reported at current value.

Inventory

Inventory is valued at cost, using the first-in, first-out (FIFO) cost method. The inventory is recorded as an asset when purchased and charged to expenditure when used.

Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Prepaid items of governmental funds in the fund financial statements are offset by fund balance reserve amounts to indicate that they do not represent spendable available resources.

Receivables

The accounts receivable in the Water Fund and Sewer Fund represent gross receivables of the respective funds with no valuation allowance made for doubtful accounts since the City has preferred status in that water and sewer services are not resumed for the property until the receivables are collected. Similarly no valuation allowance is made for real estate property taxes receivable since title to real property does not pass until real estate taxes are paid in full.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “interfund receivables” and “interfund payables” in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Any long-term portion of interfund receivables, as reported in the fund financial statements, is offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Buildings	40-50 years
Water and sewer system	40-50 years
Machinery and equipment	3-20 years
Improvements	10-30 years
Other infrastructure	10-75 years

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Deferred Revenues – Fund Financial Statements

Property tax revenue is required to be recognized in the fiscal year for which taxes have been levied, provided they are available to finance the budget for a particular period. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Generally accepted accounting principles provide that such time thereafter shall not exceed sixty days. To the extent property tax levies have not been collected within sixty days past year-end, the City has deferred the revenue.

In accordance with Governmental Accounting Standards Board Statement 33, non-exchange revenue (for example, most taxes, grants, and private donations) not received within sixty days after the fiscal year end is deferred and recognized as revenue in future periods when it becomes available.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable, accrued compensated absences, and capital leases payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation in the government-wide financial statement. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses and are not eliminated in the process of consolidation in the government-wide financial statements. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Bond Discounts and Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issues.

In proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of the revenue bonds payable whereas issuance costs are recorded as other costs.

At the government-wide level these costs in the governmental funds are adjusted and reported in the same way as in proprietary funds.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. *Summary of Significant Accounting Policies – (Continued)*

Capitalized Interest

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The following funds were affected:

	Total Interest Costs Incurred	Interest Charged To Expense	Interest Cost Capitalized	Interest Revenue Used to Offset Interest Costs	Net Capitalized Interest
Water Fund	\$ 564,066	\$ 476,929	\$ 87,137	\$ -	\$ 87,137
Sewer Fund	205,736	142,372	63,364	-	63,364
MPA Fund	124,747	50,968	73,779		73,779
Non-Major Proprietary Funds	3,143	3,143	-	-	-

Interest costs are expensed when incurred by governmental fund types where proceeds are used to finance the construction of capital assets.

Operating and Non-Operating Revenues

The statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues. For this purpose, operating revenues, such as water, sewer, and trash fees, result from exchange transactions associated with the principal activities of the City. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Non-operating revenues arise from exchange transactions not associated with the City's principal activities (such as investment income) and from all non-exchange transactions (such as grants).

Estimates

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

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

F. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

An annual operating budget is legally adopted for the General Fund. The budget amounts in the required supplemental information were adopted on a basis consistent with generally accepted accounting principles and are as originally adopted or as amended by the City Council. Supplemental appropriations in the amount of \$1,540,642 were approved for fiscal year 2008 during fiscal year 2008 and fiscal year 2009.

Annual budgets for other governmental fund types are not adopted and therefore are not presented.

The City has elected to employ the use of encumbrance accounting for financial and budgetary reporting purposes for the governmental funds in order to carry forward the requisite governmental funds for purchase orders that are outstanding at year end and where these commitments are intended to be fulfilled. These governmental funds are reserved and are not available for new spending. Appropriations for proprietary fund generally lapse at year end and are treated as expenditures in the year the liability is incurred.

The City follows these procedures in establishing the budgetary data reflected in the financial statements. Expenditures may not legally exceed appropriations at the function level.

1. Approximately in February, revenues are projected for the fiscal year commencing the following July 1. This information is forwarded to the individual department heads to prepare their budgets according to the projected revenues.
2. The department budgets are accumulated by the City Administrator, who prepares a formal budget and submits it to the Mayor and City Council.
3. Public hearings are conducted at the City Hall to obtain taxpayer comments.
4. Prior to July 1, the budget is legally enacted through passage of an ordinance.

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1. Summary of Significant Accounting Policies – (Continued)

5. The Mayor and City Council can approve supplemental appropriations during the year.
6. The Mayor and City Council can approve budget amendments between departments during the year.

Net Assets/Fund Balance Deficit

The following funds had deficit fund balances at June 30, 2008:

Trash Fund	(244,939)
Program Open Space	(123,719)
Section 8	(12,509)
Tax Increment Financing District	(39,735)
Police Grants	(56,513)
Economic Development	(9,405)
Miscellaneous Funds	
Capital Projects	(17,953)
Special Recreation	(16,959)
Shade Tree Commission	(431)

All of the aforementioned funds will have their deficit fund balances restored with the recognition of deferred revenue at June 30, 2008 as revenue in fiscal year 2009 or with the receipt of grant reimbursements and fund transfers in future years.

Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

Note 2. Cash and Investments

Cash

As of June 30, 2008, the carrying amount of the City's deposits was \$661,109 and the bank balance was \$1,196,669 (including an investment in an overnight repurchase agreement in the amount of \$596,807).

Cash Risks and Policies

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits with financial institutions to be fully secured by collateral. The City's cash

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 2. Cash and Investments – (Continued)

balances at financial institutions at June 30, 2008 are fully collateralized with securities held by the City's agent in the City's name.

Investments

As of June 30, 2008, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Total</u>	<u>Investment Maturity</u>		<u>Credit Rating</u>
		<u>Less than 90 Days</u>	<u>90 days to one year</u>	
Municipal Money Market Savings	\$107,903	\$ 107,903		N/A
Maryland Local Government Investment Pool	2,821,988	2,821,988		N/A
U.S. Treasury Money Market	78,457	78,457		N/A
	\$3,008,348	\$3,008,348	\$ 0	

Investment Risks and Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City investment policy specifies the following diversification by instrument:

<u>Diversification by Instrument</u>	<u>Maximum Percent of Portfolio</u>
U.S. Treasury Obligations	100%
Maryland Local Government Investment Pool	90%
Repurchase Agreements (Master Repurchase Agreement required)	70%
Collateralized Certificates of Deposit (Only Maryland Commercial Banks)	70%
U.S. Government Agency and U.S. Government-sponsored instrumentalities	50%

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to

CITY OF CUMBERLAND, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 2. Cash and Investments – (Continued)

increased risk of adverse interest rate changes. The City's investment policy indicates that the majority of the investments of the City will be on a short term basis (less than one year). However, a portion of the portfolio can contain investments with longer maturities (up to two years from date of purchase). These investments are limited to direct federal government obligations and to securities issued by U.S. Government agencies.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. With the exception of the direct purchase of U.S. Treasury's, no more than 90% of the City's total investments may be placed at the Maryland Local Government Investment Pool and no more than 70% of the City's total investment may be placed at any one financial institution.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. City policy provides that investment collateral is to be held by a third party custodian with whom the City has a current custodial agreement in the City's name. All of the City's investments are collateralized with securities held by the City's agent in the City's name.

The City's investment policy and state law requires collateralization of 102% of market value of investments. ARTICLE 95, Section 22 of the Annotated Code of Maryland authorizes the City to invest surplus funds in bonds or in other obligations of which the full faith and credit of the United States of America are pledged, obligations of federal government agencies issued in accordance with an Act of Congress, repurchase agreements that are secured by any bond or other obligation for the payment of which the full faith and credit of the United States are pledged, any bank or banks in the State of Maryland, any savings and loan association, any building and loan association, in interest-bearing time deposit; and/or savings accounts, or in the Local Government Investment Pool. The City is in compliance with its investment policy and State law having all deposits and investments collateralized at 102% of market value with bonds or other obligations secured by the full faith and credit of the United States.

The City invests in the Maryland Local Government Investment Pool which is administered by the Mercantile-Safe Deposit and Trust Company. These approved investments are carried at cost, which approximates market and may be liquidated as needed. Due to the short-term nature of the Maryland Local Government Investment Pools' assets and liabilities, the carrying value as recorded in the statements of assets and liabilities approximates fair value. The Maryland Local Government Investment Pool is not registered with the Securities and Exchange Commission. The Board for the Maryland State Treasurer's Office oversees its operations.

