

PROPOSAL COVER SHEET

NORTHUMBERLAND COUNTY TAX COLLECTION COMMITTEE

Enclosed are three (3) copies of the proposal in a sealed envelope in response to the above referenced RFP. Also enclosed is one (1) copy of the proposal and appendices on a CD in PDF format.

Offeror Information:

Capital Tax Collection Bureau
2301 North Third Street
Harrisburg, PA 17110-1893
www.captax.com

Contact Person:

Joshua J. Vecchio, Executive Director
(717) 234-6469
Fax: (717) 234-2962
jvecchio@captax.com

Federal ID Number: 23-2022954

Submittals Enclosed and Sealed:

I verify that the statements made in this Proposal submitted in response to Northumberland County TCC Tax Collector RFP are true and correct. I understand that false statements herein are made subject to the penalties of 18 Pa.C.S. § 4904, resulting to unsworn falsification to authorities.

The signature below is that of an official authorized to bind the Offeror to the provisions contained in the Offeror's proposal:



Joshua J. Vecchio
Executive Director
Capital Tax Collection Bureau
May 19, 2010

Capital Tax Collection Bureau proposal to Northumberland County Tax Collection Committee

**Note that the terms of this proposal are the same for both a
one-year and three-year contract**

1. Cover Letter

The cover letter is signed and attached as a separate document.

2. Firm Background and Information

- a. Firm name, address, telephone number, fax number, email address, and website address:

Capital Tax Collection Bureau
2301 North Third Street
Harrisburg, PA 17110
(717) 234-6469 (phone); (717) 234-2962 (fax)
www.captax.com

- b. Contact person name and title:

Joshua J. Vecchio
Executive Director
(717) 234-6469
jvecchio@captax.com

- c. Firm officer's and director's names and addresses:

Attached, as "Appendix 1" is a list of the names and addresses of CTCB officers. The officers can also be used as references as they are the delegates from various municipalities and school districts.

3. Firm Overview

CTCB is a Pennsylvania, non-profit governmental corporation organized to collect the earned income tax (hereinafter "EIT") and provide other contracted services to municipalities and school districts. Currently, CTCB serves taxing authorities from five counties in South Central Pennsylvania.

CTCB has been collecting taxes for 44 years. In 1966, the City of Harrisburg - Earned Income Tax Division, the forerunner of CTCB, was created to collect the new earned income tax for the City and School District of Harrisburg, PA. In 1969, CTCB was reorganized and began collecting EIT for Perry County municipalities in South Central Pennsylvania. In 1988, CTCB was incorporated in Pennsylvania as a non-profit corporation.

Collecting EIT is CTCB's major function. Additionally, CTCB provides other collection services including Occupation Assessment, Per Capita, Residence, and Local Services Tax (LST) collection, utility billing collection and administration, and governmental accounting software maintenance. CTCB also provides delinquent tax collection for any tax collected, and prints tax bills and other forms for municipalities and school districts. It is worth noting that CTCB already prints the individual tax returns for the following Northumberland County School Districts: Line Mountain, Shikellamy, Warrior Run, Milton.

Attached "Appendix 2" is the total tax revenue collected for the last five years for each type of tax collected by CTCB.

CTCB's mission is to provide our customer municipalities and school districts with efficient, accurate, and responsive tax collection services in a timely and cost-effective manner. We will remain customer-focused and accessible to the communities we serve.

CTCB prides itself on its long-standing tradition and trend setting in the local tax collection industry of Pennsylvania. For example, many tax forms designed by CTCB are used by other collectors throughout Pennsylvania. CTCB management possesses the integrity, leadership skills, and intelligence to provide effective tax collection services to members in an often-changing legal landscape.

CTCB's goal is to provide the most efficient tax collection system at the lowest possible cost. Interest from short-term investments, delinquent interest, penalties and fines, plus delinquent costs of collection, are used to reduce the cost of collection to our members/clients. When our overall net profits exceed our planned future operational needs, we may lower our commission rate, as we do not have any owners or stakeholders with profit motive.

While low costs of collection are important, thorough and efficient tax collection is even more important. To provide efficient and customer-friendly collection, CTCB currently has three offices in South Central Pennsylvania which are fully staffed by 42 employees.

4. CTCB Distinguishing Characteristics

CTCB offers more choices to a TCC than any other collector. CTCB is organized as a non-profit bureau governed by the school districts and municipalities we serve. As such, the Northumberland County TCC must decide how to utilize CTCB. If the TCC decides to become full-fledged CTCB members, the taxing authorities will become members of CTCB (and have a representative on our Board of Directors, which is the governing body of CTCB.) Conversely, the TCC can engage CTCB to be a third-party collector by entering into a Tax Collection Agreement with the Bureau.

Becoming members of CTCB allows the Northumberland County taxing authorities to have direct control over how their taxes are collected. The CTCB Board of Directors meets five times per year to conduct bureau business. Standing committees meet more frequently.

Central Pennsylvania is unique, and lucky, in that it is the only area in Pennsylvania with several non-profit tax bureaus such as CTCB. While other TCCs want to form their own tax bureau, very few are, citing time and expense. Northumberland County is in a perfect situation to take advantage of CTCB as opposed to other non-profit bureaus because of our size and technology.

CTCB has the ability to offer a comprehensive tax collection solution via our existing infrastructure and business model. Because of the technology currently in place, CTCB has the ability to grow drastically to provide EIT collection to several TCCs in Pennsylvania. CTCB is based in Harrisburg, Pennsylvania, but through technology, is a very mobile organization.

Through imaging/scanning equipment that it is very close to purchasing, CTCB will have the ability to open offices with minimal staffing anywhere in Pennsylvania. While customer service is paramount to CTCB, the future of EIT collection will be based on the ability of collector offices to share information electronically. CTCB fully expects to have state of the art imaging equipment/software in place by the end of 2010. CTCB will supplement this proposal when it signs the contract to purchase imaging/scanning equipment and software.

CTCB offers online filing for both employers and individual taxpayers. Employers have the ability to remit withheld taxes through an automated clearing house (ACH) payment. CTCB has taken individual online filing one step further by offering the taxpayers the ability to file the long form online. (Taxpayers who move or hold multiple jobs during the year are still able to file online). Additionally, both individuals and employers have the ability to pay their tax liability online via credit card.

The most important distinguishing characteristic about CTCB is that we are one of the largest non-profit bureaus in Pennsylvania. Because we have no owners or stakeholders with a profit motive, any excess profits can be returned to you through lower commission rates. Although our extremely low rate is quoted later in this proposal, CTCB may lower the rate even further if our revenue exceeds future costs of operation. It is worth noting that historically, CTCB has collected taxes at a commission rate of around 0.7%!

5. Bureau Offices

CTCB currently has three offices in South Central Pennsylvania. Our main office is located in the City of Harrisburg. We also have an office in Carlisle, and an office in Lower Paxton Township, Dauphin County. CTCB is more than willing to open a fully staffed office in the Northumberland County Tax Collection District.

6. Site Visits

CTCB welcomes representatives from the Northumberland County TCC to visit any of our three offices. A visit will show the latest technology being utilized by dedicated employees whose goal is to maximize tax revenue for the PSDs we serve.

7. Key employees

An organizational chart is included with the attached SAS 70 audit report. Currently, CTCB employs the following Management Personnel: an Executive Director, a Deputy Director, an Information Technology Director, an EIT Director, a Delinquent Department Director and two office managers. CTCB currently employs twenty auditors and three receptionists/mail clerks. Two auditors are devoted full time to processing refunds, and two auditors are assigned solely to handle claims (both incoming and outgoing) to other tax collectors.

All CTCB personnel will be dedicated to Northumberland County TCC EIT collection in direct proportion to Northumberland County's percentage of CTCB business. Additionally, CTCB will open one or more offices in Northumberland County in order to assist walk-in taxpayers and answer local phone calls.

Below is a summary of tax experience for key CTCB employees:

1. Joshua J. Vecchio – Executive Director – Earned a BS in Finance from Penn State University, a Juris Doctor (with honors) from Widener University School of Law and a Master of Laws in Taxation (with a certificate in employee benefits) from Georgetown University Law Center. Mr. Vecchio is a licensed attorney in Pennsylvania and has been Executive Director of CTCB since January, 2009.
2. David Doyle – Deputy Director – Graduated in 1980 with a BBA in Accounting from The Pennsylvania State University at Harrisburg. In April, 1995, Mr. Doyle was appointed as Executive Director of the Central Dauphin Earned Income Tax Office. He served in that capacity until the tax office merged with CTCB in January 2002. Mr. Doyle has been employed as Deputy Director with CTCB since 2002. Mr. Doyle has served as a Director or Treasurer of the Pennsylvania Earned Income Tax Officers and Collectors Association since 1996.
3. Barbara Bonn – EIT Director – Has been with CTCB for 34 years. She began as an auditor and is currently the EIT Director, as well as the coordinator for our three offices. Ms. Bonn serves as the primary person responsible for training new employees.
4. Dave Gulden – IT Director – Has been with CTCB for 34 years. He was an honors graduate from the Computer Learning Center of Fairfax, VA. Mr. Gulden designed our computerized tax system in-house, regularly attends continuing education courses, and is fluent in COBOL, RPG, FORTRAN. Mr. Gulden authored the work manuals that correspond to our current computerized tax system.
5. Judy Line – Bookkeeper/Human Relations – Has been working in tax collection since 1977, and has been with CTCB since 1983 in her position as bookkeeper. She also handles CTCB's human relations.
6. Michelle Shearer – Delinquent Department Director – Has been with CTCB for 21 years and has been Delinquent Department Director since 1994. In addition to the collection of all delinquent taxes, her department collects and administers all Local Services Tax and Occupational Assessment Tax.
7. Luanne Miller – Administrative Assistant to the Executive Director - Has been employed at CTCB for 34 years. Her duties include gathering state tape information from our member school districts, generating reports to escheats for outstanding checks and designing forms that are printed and mailed internally.

8. Other RFP responses

Perry County and Juniata County have already named CTCB as their Act 32 Tax Collector. Additionally, CTCB has already responded to the TCC RFPs for Lehigh County and Bucks County and Franklin County. CTCB intends to respond to the following TCC RFPs: Carbon County, Dauphin County, and Lackawanna County.

9. Business Volume Capacity

Our IT Director designed CTCB's computerized tax system in-house. As such, CTCB has the ability to seamlessly add new clients to our tax system. With the corresponding hardware additions, there is no limit to the number of taxpayers and employers that CTCB can serve. In 2002, CTCB successfully assimilated 2 significantly sized school districts and their coterminous municipalities in the face of complicating tax reform legislation.

In terms of high-speed telecommunication, CTCB is in the process of implementing Multiprotocol Label Switching (MPLS) which will give all CTCB offices the ability to connect with one another. Through MPLS, CTCB can seamlessly add an office in the Northumberland County TCD. CTCB offers a full compliment of online services, which provides greater convenience to the employers and taxpayers we serve. Online services and our comprehensive website allow CTCB to drastically increase its volume capacity with minimal additional costs.

In terms of bonding capacity, the Executive Director of CTCB is bonded by a Fidelity Bond in the amount of five million (\$5,000,000) dollars. This bond was issued by the Ohio Casualty Insurance Company, which is rated "A" (Excellent). CTCB has the ability to increase this amount to either ten million (\$10,000,000) dollars or fifteen million (\$15,000,000) dollars. It is unknown at this time what the bond requirement for CTCB will be in 2012 because it is currently unknown how many TCCs will name CTCB as their collector. To procure higher bond amounts and higher insurance amounts in general, CTCB contracts with an external insurance consultant. No bonding company has ever revoked or reduced the amount of a bond carried by CTCB.

10. Conflicts of Interest

There are no relationships or interests of CTCB and its officers, directors or employees that would arguably conflict with the interests of the Northumberland TCC or its political subdivisions (hereinafter "PSD").

There are no relationships or interests of CTCB and its officers, directors or employees that would arguably conflict with the auditing firm or any other vendor which services CTCB.

There are no family or professional relationships between CTCB and its officers, directors or employees, and any elected official or employees of the Taxing Authorities within the Northumberland County TCC.

11. Detailed Background and Operating Information

- a. CTCB currently meets all the qualifications and requirements of a Tax Collector established under Act 32. Those requirements contained in Section 506(b) of Act 32 are listed below unless they are addressed elsewhere in this proposal:
 - i. CTCB has been not been convicted of a felony involving fraud, extortion or dishonesty in any jurisdiction;
 - ii. CTCB has not engaged in conduct which significantly adversely reflects on our credibility, honesty or integrity;
 - iii. CTCB will comply with the education requirements for tax officers once promulgated by the Department of Community and Economic Development ("DCED");
 - iv. CTCB collects, reconciles, and enforces income tax imposed on residents and nonresidents of each PSD included in the TCC. CTCB has already been named as the Act 32 Collector for Perry and Juniata Counties. Additionally, CTCB has been a "non-resident collector" since its inception. CTCB also performs monthly EIT reconciliation. The enforcement of the income tax through our delinquent department will be described below in more detail;
 - v. CTCB receives and distributes taxes received from employers. CTCB receives withholdings from employers on both a monthly and a quarterly basis, and allows employers to file the detail and remit the money online via ACH, and also through credit cards;

- vi. CTCB currently makes monthly distributions to PSDs as required by Section 513 of Act 32;
- vii. CTCB currently adheres to Act 72 requirements limiting investments;
- viii. CTCB provides monthly reports to every PSD it serves. Beginning in 2012, CTCB will provide a corresponding monthly report to the Secretary of the Northumberland County TCC. These monthly reports will show a breakdown of all income taxes, income generated from investments, interest and penalty collected, and other money received for each PSD;
- ix. CTCB currently refunds overpayments made by taxpayers back to said taxpayers.
- x. CTCB has adopted as Bureau policy the Retention and Disposition Schedule for Records of Pennsylvania Municipal Governments developed by the Local Government Records Committee of the Pennsylvania Historical Commission pursuant to the Municipal Records Act (53 Pa.C.S. §1381) as its operating procedure for the retention and disposition of records;
- xi. CTCB participates in a program with the Pennsylvania Department of Revenue to match compensation and net profits/loss as reported on the local earned income tax return against the same items reported on the state personal income tax return;
- xii. CTCB has and will file suits through our solicitor on behalf of the PSDs we serve with regard to bankruptcies and non-filings or non-remittance of taxes to the bureau;
- xiii. CTCB currently adheres to the interest and penalty provision of Section 509(i) of Act 32;
- xiv. CTCB has adopted the fines and penalties for violation provision of Section 509(j) of Act 32 by filing a criminal complaint against taxpayers/employers who fail to file the required returns.

- b. Key CTCB personnel regularly attend seminars and conferences regarding Act 32 including PSATS local governmental educational seminars, PASBO webinars and PEITOAC meetings. To comply with Act 32, CTCB has already stopped providing Advances to PSDs, and switched to the detail method of distribution as is required under Act 32. Additionally, CTCB requires Quarterly Detail be filed with the Bureau as is required under Act 32.
- c. Over the past several years, CTCB has upgraded its technology drastically to be Act 32 compliant. CTCB provides online filing to both our employers and to our taxpayers. Employers can remit taxes withheld to CTCB online via ACH and file the quarterly detail online as well. CTCB is one of the few collectors which offers our taxpayers the ability to file a tax return online regardless of their circumstances (multiple jobs, moved, etc). Taxpayers can also pay any tax online via credit card.

CTCB will soon be purchasing imaging/scanning equipment which will save time and reduce the amount of paper storage used by the Bureau. Imaging will also drastically reduce the threat of human error because the checks will be automatically deposited in our bank using Check 21 (deposits the checks into our bank electronically). The imaging software will recognize payment vouchers along with the payments to allow for a completely automated collection process.

CTCB has a very robust website which provides the links to our online filing. Additionally, for those users who choose not to file online, every form offered by CTCB is available online in either a PDF or self-calculating Excel file. Tax rates, links to our municipalities and school districts, our Right to Know Policy, and the Taxpayer Bill of Rights are all available on our website.

- d. CTCB maintains a full-service delinquent collection operation, and is a leader in the industry. We employ the use of second notices, certified notices, wage attachments, and criminal complaint filings. The delinquent collection process has been successful in every area we serve as we work closely with local Magisterial District Judges. CTCB personnel testify as needed to enforce the tax ordinances and resolutions. As a quasi-governmental entity, CTCB is able to directly enforce tax collection efforts as a delegate of our clientele, saving them the effort. Our Bureau Solicitor, on retainer, has vast experience on local tax matters and is responsive to our client's concerns and

questions. Finally, the Executive Director is a licensed Pennsylvania attorney who can represent the bureau for minor court appearances.

- e. CTCB is proud of its claims process. We regularly respond to claims in a timely manner even when other tax collectors do not. The best way the TCC can verify how good a collector is at handling claims is by contacting other collectors. CTCB welcomes the Northumberland County TCC to contact other collectors to verify the promptness of CTCB's claims response time.

A claim is any request for funds owed to the Bureau by another collector or an employer. A claim occurs when an employer remits withholdings to another collector for a taxpayer that resides within a CTCB member municipality, or when an employer withholds taxes from a taxpayer's pay but does not remit the withholdings to the Bureau.

CTCB's claims auditors are responsible for all incoming and outgoing claims. For a detailed description of our claims process, please see page 25 of the Attached SAS 70 report.

- f. Because each of our three South Central Pennsylvania offices is fully staffed, we provide the best customer service to taxpayers and employers that we serve. When you call one of our offices, you get a live person almost immediately, not a recording which keeps you on hold for several minutes. We encourage Northumberland County TCC members to contact one of our offices during business hours to verify this statement.

We currently assist taxpayers, at no charge, in filling out their local earned income tax return. We handle walk-in taxpayers, phone calls, email questions, and online filings. We also offer payment plans to taxpayers who cannot pay their entire liability at one time.

- g. CTCB engages Nauman, Smith, Shissler and Hall (NSSH), LLP in Harrisburg as our solicitor. It is a fully staffed law firm specializing in municipal law, litigation and non-profit entities. NSSH provides legal advice to CTCB in the areas of tax law updates, internal governance, and prosecution of delinquent taxpayers, including appeals. Additionally, the Executive Director of CTCB is a licensed Pennsylvania attorney.
- h. To ensure that our staff is familiar with Act 32, monthly staff meetings are held to update key employees on Act 32 as well as any other

changes in tax law. Those managers then hold weekly meetings with the staff to update them on any CTCB procedure changes to be Act 32 compliant.

- i. CTCB limits its investments to: short-term obligations of the United States, deposits in savings, certificates of deposit, share accounts and time deposits, and deposits in investment pools established by the State Treasurer or established by local governments. Historically, CTCB has not segregated tax funds of different PSDs into different accounts.
- j. CTCB uses several institutions to deposit tax funds. Most frequently, CTCB invests with Citizens Bank and the Pennsylvania Local Government Investment Trust (PLGIT). CTCB adheres to Act 72 of 2004, which is the Public School Code regarding investments. The Bureau has entered into a tri-party agreement between the Bureau, Citizens Bank, and The Bank of New York. The Bureau receives a monthly statement showing that the investments are collateralized in the amount of 102% of the outstanding bank balance.

12. Subcontractors and Outsourcing

CTCB contracts with the following vendors for our online filing system:

RBA Professional Data Systems, Inc.

240 Elmwood Street

State College, PA 16801

CTCB contracts with RBA to design our individual online filing system

Business Information Group (BIG)

156 North George Street, Suite 100

York, PA 17401

CTCB subcontracts with BIG to design our employer online filing system

Official Payments

Reston, Virginia

CTCB uses Official Payments to collect our credit card payments

13. Insurance, Bonding and other Information

- a. *Included in a separate packet are three copies of: (1) CTCB's most recent fiscal year and audited financial statements and management letters; (2) Our SAS 70 audit which was completed on February 28, 2010 and accepted by*

our Board of Directors on April 21, 2010; and (3) background information of our CPA firm, Parente Beard. Please note that these documents are for informational use only.

b. CTCB has the following insurance coverages:

1. The Executive Director of CTCB is bonded by a Fidelity Bond in the amount of five million (\$5,000,000) dollars. CTCB currently has the ability to increase this amount to either ten million (\$10,000,000) dollars or fifteen million (\$15,000,000) dollars.
2. CTCB has crime coverage in the amount of two million (\$2,000,000) dollars per employee through Travelers Insurance. It covers all CTCB personnel and board members for employee theft, forgery, on-premises and in-transit loss, money order and counterfeit currency, computer fraud and funds transfer (cybertheft), as well as some sub-limit accounts and claim expense coverage.
3. CTCB has error and omissions coverage (E&O) in the amount of one million (\$1,000,000) dollars through AIG Insurance. This coverage protects CTCB against legal actions pursuant to employee hiring and firing, and the issues that give rise to these actions.
4. CTCB has Fiduciary Liability Coverage in the amount of one million (\$1,000,000) dollars through Darwin National Assurance Company. The Fiduciary Liability Coverage protects against a Fiduciary wrongful act defined in the policy as "any actual or alleged breach in responsibilities, obligations or duties imposed upon a Fiduciary of a covered Plan by [ERISA] or any regulations promulgated hereunder, and any amendments thereto, or by the common or statutory law of the United States or any state or jurisdiction anywhere in the world by any Insured Person in his or her capacity as a Fiduciary of any covered plan."

c. CTCB contracts with an external, independent accounting firm annually to obtain audited financial statements and an audited schedule of collections and distributions, which includes testing a sample of "dollar for dollar" receipts and payments to ensure that the tax revenue is being distributed to the correct PSD. The financial statements are presented to our audit committee and then are accepted by our Board of Directors. Included in a separate, sealed envelope are three copies of our most recent fiscal year end audited financial statements.

- d. No firm officer, director or key employee has ever been arrested for or convicted of any criminal charge. One CTCB staff employee was arrested for and convicted of a summary retail theft in 1978. The employee was found guilty after an MDJ hearing and sentenced to pay a fine of \$100 with no further sentence. No other CTCB employee has any convictions.
- e. In 2009, criminal background checks were conducted on all current CTCB employees. All potential employees must undergo a criminal background check prior to their hiring. Any potential employee, otherwise selected for hire, whose criminal background check shows a conviction for any crime of dishonesty or felony will not be hired unless and until the Personnel Committee approves his or her hire. Finally, the Board of Directors must approve all new hires. All criminal background checks are conducted through the Pennsylvania State Police. CTCB will conduct follow up background checks periodically.

14. Transition Plan

It is anticipated that the Northumberland County TCC will appoint their new collector by September of 2010. The newly-named collector must communicate with all current EIT collectors currently serving Northumberland County, and work with them to ensure that all their records are properly transferred to the new collector.

These discussions will begin immediately after the new collector is selected, and the bulk of this work will be completed by the end of 2010. Also during late 2010, office space will need to be researched and obtained so that county-wide collection can start in 2012.

During early-mid 2011, the new Northumberland County TCD office must be staffed and equipped. The staff must be trained on CTCB procedures, and become familiar with our tax system.

Throughout 2011, CTCB will send out multiple notices to all Northumberland County PSDs, employers and taxpayers indicating that CTCB is the Northumberland County Collector beginning in 2012. All information will also be on our website.

15. Fees and charges

- a. Transition Fees

15. Fees and charges

a. Transition Fees

CTCB will not charge additional costs or fees to Northumberland County TCC or to other collectors during the transition to our role as Northumberland County TCC Tax Officer.

b. Non-delinquent and delinquent tax collection fees combined

- (1) Basic collection commission – The Commission rate charged by CTCB to the Northumberland County TCC for EIT shall not exceed **1.50%**. This commission rate may be lowered if CTCB earns enough revenue to offset future capital improvement costs. The commission rate charged for LST collection will be done at cost (not to exceed 2%). Currently, CTCB collects LST for around 1.70% for our members.

CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter.

- (2) CTCB would not charge Northumberland County TCC for a Type II SAS 70 audit because an audit was completed with the testing period ending February 28, 2010. The SAS 70 audit resulted in an unqualified opinion. Future SAS 70 and CYSTRUST audits are included in our low commission rate.
- (3) The ability of CTCB to retain investment earnings (and offset our costs of operation) is already included in the low **1.50%** commission rate.
- (4) The ability to use our current financial institution and commingle Northumberland County TCC funds together with the funds from other TCCs is included in the low **1.50%** commission rate.
- (5) CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter for the next three calendar years.
- (6) CTCB does not offer a proposal that would provide an incentive to maximize collections, because that kind of service should be provided in the basic cost of collection.

- (7) Act 1 Sterling Tax Credit Certification reports, postage and mailing charges are included in the basic collection commission. Basic postage and mailing charges are included in the basic collection commission. The only time Northumberland County TCC would incur additional charges from CTCB is if the TCC requested a special mailing or other services unique to that TCC which is outside the purview of Act 32.

c. Non-Delinquent Tax Collection Only

- (1) Basic collection commission – The Commission rate charged by CTCB to the Northumberland County TCC for EIT shall not exceed **1.50%**. This commission rate may be lowered if CTCB earns enough revenue to offset future capital improvement costs. The commission rate charged for LST collection will be done at cost (not to exceed 2%). Currently, CTCB collects LST for around 1.70% for our members.

CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter.

- (2) CTCB would not charge Northumberland County TCC for a Type II SAS 70 audit because an Audit was completed with the testing period ending February 28, 2010. The SAS 70 audit resulted in an unqualified opinion. Future SAS 70 and CYSTRUST audits are included in our low commission rate.
- (3) The ability of CTCB to retain investment earnings (and offset our costs of operation) is already included in the low **1.50%** commission rate.
- (4) The ability to use our current financial institution and commingle Northumberland County TCC funds together with the funds from other TCCs is included in the low **1.50%** commission rate.
- (5) CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter for the next three calendar years.
- (6) CTCB does not offer a proposal that would provide an incentive to maximize collections, because that kind of service should be provided with the basic cost of collection.

- (7) Act 1 Sterling Tax Credit Certification reports, postage and mailing charges are included in the basic collection commission. Basic postage and mailing charges are included in the basic collection commission. The only time Northumberland County TCC would incur additional charges from CTCB is if the TCC requested a special mailing or other services unique to that TCC which is outside the purview of Act 32.

d. Delinquent Tax Collection Only

- (1) Basic collection commission – The Commission rate charged by CTCB to the Northumberland County TCC for delinquent taxes shall not exceed **1.50%**. This commission rate may be lowered if CTCB earns enough revenue to offset future capital improvement costs. The commission rate charged for LST collection will be done at cost (not to exceed 2%). Currently, CTCB collects LST for around 1.70% for our members.

CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter.

- (2) CTCB would not charge Northumberland County TCC for a Type II SAS 70 audit because an audit was completed with the testing period ending February 28, 2010. The SAS 70 audit resulted in an unqualified opinion. Future SAS 70 and CYSTRUST audits are included in our low commission rate.
- (3) The ability of CTCB to retain investment earnings (and offset our costs of operation) is already included in the low **1.50%** commission rate.
- (4) The ability to use our current financial institution and commingle Northumberland County TCC funds together with the funds from other TCCs is included in the low **1.50%** commission rate.
- (5) CTCB is willing to accept a lump sum annual fee for EIT in the amount of \$235,000 payable January 1, 2012 and each year thereafter for the next three calendar years.
- (6) CTCB does not offer a proposal that would provide an incentive to maximize collections, because that kind of service should be provided with the basic cost of collection.

- (7) Act 1 Sterling Tax Credit Certification reports, postage and mailing charges are included in the basic collection commission. Basic postage and mailing charges are included in the basic collection commission. The only time Northumberland County TCC would incur additional charges from CTCB is if the TCC requested a special mailing or other services unique to that TCC which is outside the purview of Act 32.
- (8) *Attached as "Appendix 3" is CTCB's approved schedule for delinquent costs of collection.*

16. Other Information or Comments - Conclusion

CTCB has always been a member-driven organization. Because we are a non-profit corporation, we have no owners or stakeholders who make a profit when we succeed. CTCB's only goal is to provide the most revenue for the least cost to the school districts and municipalities we serve. In order to do so, we have upgraded our technology while still adhering to the highest level of customer service.

To be Act 32 compliant, CTCB provides various informational reports to its members. A report is issued at the time of distribution providing detail on the tax collections. CTCB has the ability to tailor reports to fit our clients' needs. Bureau management is directly responsive to member concerns and attends meetings to provide further explanations and answer questions regarding collection and distribution. As requested, we will assist our members' administration with budget estimates for the taxes we collect. Also on request, our Bureau provides its members with an annual listing of known taxpayers within the TCD.

CTCB utilizes computerization to the fullest extent in its collection process. Our bureau utilizes advanced and comprehensive EIT software/programs. These have been refined and enhanced by our internal information technology department. We maintain a robust, user-friendly website where taxpayers, employers, and tax return professionals can get information and forms to aid in their understanding of, and compliance with the tax laws. In addition to maintaining a vast amount of taxpayer and employer information, our internal tax system is used in the following areas:

- Taxpayer and employer compliance;
- On-line taxpayer and employer history dating back to tax year 1983;
- Cross-referencing tax data;

- Automatic interest and penalty calculation and billing;
- Claims to taxpayers, employers, and other tax collectors, and the monitoring of the receipt of these claims;
- Complete delinquent files, which includes a monitor of partial payments, and automatically prepares notices to those taxpayers that are in default thereof;
- Computerized preparation of all forms and notices. This includes computer prepared criminal complaints;
- Tax information reporting by magnetic media. This is required, through EIT regulations, of employers meeting the same threshold that requires like reporting to the IRS/SSA. This eliminates hundreds of hours of manual input and error corrections. Magnetic media reporting is not only received from large employers, but is also received from other area collectors;
- Matching residents and taxable income to those reported to the Pennsylvania Department of Revenue with follow-up on discrepancies

Confidentiality is strictly maintained for all tax and related information, and is one of the ethical foundations upon which the Bureau was built. A certified public accounting firm performs an audit annually. These audit reports are reviewed and accepted by our Board of Directors and mailed to all our members. Beginning with the 2006 audit, our Board of Directors voted to expand the scope of the audit to sample test the member distributions. This testing verifies, on a sample basis, that the tax revenues are being distributed to the proper municipalities and school districts. Each year, since our inception, the Bureau has received an unqualified audit opinion. This is the best opinion possible.

Beginning in 2010, CTCB implemented the detail method of distribution as required by Act 32. No longer will CTCB provide advances of any kind to PSDs or to other collectors. CTCB maintains current information by requiring its employers to file detailed quarterly reports as required under Act 32. The tax collection commission is netted from distributions made to clients.

CTCB has always been based in South Central Pennsylvania. Our employees reside locally and want to see the bureau succeed, because they reside in the municipalities and school districts that we serve. Several key employees have been with CTCB for over 20 years. This type of dedication shows that they believe in the principles and service of the bureau. Because we will maximize revenue and provide the highest level of customer service, Northumberland County will be well served by choosing Capital Tax Collection Bureau as their collector for 2012 and beyond.

Appendix 1 – CTCB officers' names and addresses

James E. Swenson – President
329 McKeehan Road
New Bloomfield, PA 17068
(717) 571-8588

Larry Hartman – First Vice President
620 Piketown Road
Harrisburg, PA 17112
(717) 773-7549

E. Denny Beaver – Second Vice President
3611 Montour Street
Harrisburg, PA 17111
(717) 418-2310

Owen A. Snyder – Third Vice President
53 West South Street
Carlisle, PA 17013
(717) 240-6900

Terry K. Urich – Fourth Vice President
PO Box 202
Ickesburg, PA 17037
(717) 438-3344

Jeffery L. Wright – Fifth Vice President
119 South 4th Street
Steelton, PA 17113
(717) 554-0463

Gerald E. Eby – Immediate Past President
52 White Oak Drive
Carlisle PA 17013
(717) 226-3498

Appendix 2 – List of tax revenues for the last five (5) years

Earned Income Tax:

2005: \$113,362,984

2006: \$114,793,225

2007: \$123,775,963

2008: \$129,968,915

2009: \$102,340,095

Local Services Tax:

2005: \$4,722,416.18

2006: \$7,974,500.96

2007: \$8,506,778.95

2008: \$5,731,625.64

2009: \$4,803,579.62

Occupational Assessment Tax (Harrisburg School District):

2005: \$2,319,720.40

2006: \$2,685,215.26

2007: \$2,377,013.97

2008: \$2,543,285.59

2009: \$2,490,681.21

Steelton Borough Personal Tax:

2006:	\$96,034.98
2007:	\$145,398.56
2008:	\$141,863.96
2009:	\$154,314.20
2010:	\$34,927.69 (Note: This figure is through the First Quarter of 2010)

Highspire Borough Personal Tax:

2006:	\$51,355.87
2007:	\$58,425.71
2008:	\$60,942.87
2009:	\$65,726.41
2010:	\$22,604.76 (Note: This figure is through the First Quarter of 2010)

Steelton-Highspire School District Personal Tax:

2005:	\$216,165.96
2006:	\$459,578.82
2007:	\$501,969.32
2008:	\$435,662.13
2009:	\$470,652.63

Appendix 3 – CTCB Costs of Collection Schedule

CAPITAL TAX COLLECTION BUREAU

SCHEDULE OF COSTS TO PROVIDE DELINQUENT TAX NOTICES AND TO COLLECT DELINQUENT TAXES FROM INDIVIDUAL TAXPAYERS AND EMPLOYERS

1. INDIVIDUAL EARNED INCOME TAX

A. Non-filing individual taxpayer delinquency notices:

1. First notice – Standard Mail (initial 531 mailing)	No Cost
2. Second notice (first delinquent notice)	\$ 10.00
3. Third notice (second delinquent notice)	\$ 10.00
4. Filing of non-traffic citation or private criminal complaint	\$ 20.00

Note, the above fees are cumulative, so if a taxpayer must be mailed a second notice and third notice and if CTCB must file a criminal complaint/citation, the total fees will be \$40

B. Unpaid individual earned income tax:

1. First non-payment notice – 1 st Class Mail (each notice)	No Cost
2. Second non-payment notice - 1 st Class Mail	\$ 10.00
3. Third non-payment notice – Certified Mail	\$ 16.00
4. Wage Attachment (including spousal wage attachment)	\$ 32.00
5. Establishment of a payment plan	\$ 7.00
6. Suit in assumpsit or other appropriate remedy	Actual costs incurred* Plus \$20.00 preparation fee

Note, the above fees are cumulative, so if a taxpayer must be mailed a second notice and third notice and if CTCB must issue a wage attachment, the total fees will be \$58

C. Cost to provide copies of filed tax returns or W-2 forms to taxpayers

1. Current year and next prior year	\$ 5.00
2. 2 nd prior year and older	\$ 10.00

2. EMPLOYER EARNED INCOME TAX

A. Non-filing tax return or support documentation: (applicable for each quarter)

1. First delinquent notice – 1 st Class Mail (each notice)	No Cost
2. Second delinquent notice – 1 st Class Mail (each notice)	\$ 10.00
3. Third delinquent notice – Certified Mail (each notice)	\$ 25.00
3. Preparation of Non-Traffic Citation	\$ 30.00

B. Unpaid employer's remittance of tax withheld from employee (applicable for each quarter)

- | | |
|---|------------------------------|
| 1. First non-payment notice – 1 st Class Mail (each notice) | \$5.00 |
| 2. Second non-payment notice – Certified Mail (each notice) | \$ 25.00 |
| 3. Preparation of Non-Traffic Citation | \$ 25.00 |
| 4. Preparation on re-filing of Non-Traffic Citation due to non-compliance | \$ 25.00 |
| 5. Establishment of a payment plan | \$7.00 |
| 6. Suit in assumpsit or other appropriate remedy | Actual costs incurred* |
| | Plus \$20.00 preparation fee |

3. **OTHER TAX COLLECTION SERVICES** (Occupational Privilege Tax, Local Services Tax; As applicable for the designated tax year or tax period).

A. Non-filing of return or supporting documentation:

- | | |
|--|----------|
| 1. First delinquent notice – 1 st Class Mail (each notice) | No Cost |
| 2. Second delinquent notice – Certified Mail (each notice) | \$ 10.00 |
| 3. Preparation of Non-Traffic Citation | \$ 20.00 |
| 4. Preparation on re-filing Non-Traffic Citation due to Non-compliance | \$ 40.00 |

B. Unpaid taxes:

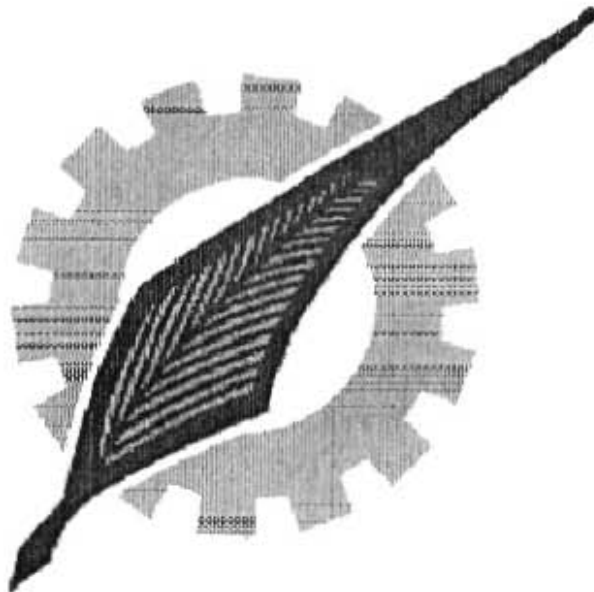
- | | |
|---|------------------------------|
| 1. First non-payment notice – 1 st Class Mail (each notice) | No Cost |
| 2. Second non-payment notice – Certified Mail (each notice) | \$ 10.00 |
| 3. Wage Attachment (including spousal wage attachment) | \$ 32.00 |
| 4. Preparation of Non-Traffic Citation | \$ 20.00 |
| 5. Preparation on re-filing of Non-Traffic Citation due to Non-compliance | \$ 40.00 |
| 6. Suit in assumpsit or other appropriate remedy | Actual costs incurred* |
| | Plus \$20.00 preparation fee |

* "Actual costs incurred" includes court fees such as filing and service costs, legal fees paid by Capital Tax Collection Bureau to prosecute or defend the specific case and any other costs incurred by the Capital Tax Collection Bureau while preparing to prosecute or defend the specific case, including but not limited to, witness fees, costs of obtaining certified documents from government regulatory agencies or other tax bureaus, etc.

CAPITAL TAX COLLECTION BUREAU

**REPORT ON CONTROLS PLACED IN OPERATION AND
TESTS OF OPERATING EFFECTIVENESS FOR
EARNED INCOME TAX COLLECTION**

AUGUST 1, 2009 THROUGH FEBRUARY 28, 2010



CONFIDENTIAL

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INDEPENDENT SERVICE AUDITORS' REPORT

Capital Tax Collection Bureau
Harrisburg, Pennsylvania

We have examined the accompanying description of controls related to the Capital Tax Collection Bureau's collection and distribution of earned income tax. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of the Capital Tax Collection Bureau's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls had been placed in operation as of February 28, 2010. The control objectives were specified by the management of the Capital Tax Collection Bureau. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Capital Tax Collection Bureau uses two (2) subservice organizations: RBA Professional Data Systems for the development and maintenance of the taxpayer online filing system and Official Payments Corporation for credit card payment processing services. The accompanying description includes only those controls and related control objectives of Capital Tax Collection Bureau, and does not include controls and related control objectives of the subservice organizations. Our examination did not extend to controls of the subservice organizations.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of the Capital Tax Collection Bureau's controls that had been placed in operation as of February 28, 2010. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Section III, to obtain evidence about their effectiveness in meeting the control objectives, described in Section III, during the period from August 1, 2009 to February 28, 2010. The specific controls and the nature, timing, extent, and results of the tests are listed in Section III. This information has been provided to user organizations of the Capital Tax Collection Bureau and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion, the controls that were tested, as described in Section III, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from August 1, 2009 to February 28, 2010. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section III were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Section III.

The relative effectiveness and significance of specific controls of the Capital Tax Collection Bureau and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls, and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at the Capital Tax Collection Bureau is as of February 28, 2010, and information about tests of the operating effectiveness of specific controls covers the period from August 1, 2009 to February 28, 2010. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Capital Tax Collection Bureau is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

The information included in Section IV of this report is presented by Capital Tax Collection Bureau to provide additional information to user organizations and is not a part of Capital Tax Collection Bureau's description of controls placed in operation. The information in Section IV has not been subjected to the procedures applied in the examination of the description of the controls related to the collection and distribution of earned income tax, and accordingly, we express no opinion on it.

This report is intended solely for use by the management of the Capital Tax Collection Bureau, its members, and the independent auditors of its members.

Stambaugh Ness, PC

York, Pennsylvania
March 24, 2010

SECTION II – DESCRIPTION OF INTERNAL CONTROLS PROVIDED BY CAPITAL TAX COLLECTION BUREAU

OVERVIEW OF OPERATIONS

The Capital Tax Collection Bureau (hereinafter "CTCB" or "Bureau") is a non-profit organization that was established in 1966 to collect local earned income tax (EIT). It was reorganized in 1969 and incorporated in 1988. Collecting EIT is still its major function today; however, CTCB now provides other collection services including Occupation Assessment, Per Capita, Residence, and Local Services Tax (LST) collection, utility billing collection and administration, and governmental accounting software maintenance. CTCB also provides delinquent tax collection for any tax collected and annually prints tax bills and forms for other collectors and municipalities.

CTCB collects the earned income tax for sixty-six (66) municipalities and school districts (hereinafter "Members") in Pennsylvania. CTCB's service area includes parts of Cumberland, Dauphin, Franklin, Juniata and Perry counties. Currently, CTCB has three offices – a Harrisburg Division with eighteen (18) employees, a Carlisle Division with sixteen (16) employees and a Central Dauphin Division with eight (8) employees.

Each of the 66 Members can have a representative on the CTCB Board of Directors, which is the governing body of the Bureau. The Board of Directors meets on a quarterly basis and is governed by the CTCB bylaws which were adopted by the Board and are reviewed periodically.¹ Once a year, the Board of Directors elects the Officers of the Bureau. The Officers are the President, First through Fifth Vice Presidents, Immediate Past President, Secretary (the Executive Director) and the Treasurer (the Recording Secretary).

In addition to the Board of Directors, Committees exist to act in an advisory capacity over certain Bureau functions and make recommendations to the Board for action. Board members comprise the various committees. Standing committees include the Executive Committee (each officer must serve on the Executive Committee), Finance Committee, Personnel and Compensation Committee and Audit Committee. Temporary committees are formed as needed and include the Technology Committee, Nominating Committee and the Governance Committee.

At the annual reorganization meeting, the Board must select a solicitor to handle all CTCB legal issues. The solicitor must be a lawyer or law firm of competent lawyers with relevant experience in municipal and school district tax matters. The solicitor of the Bureau shall be charged with interpretation of the earned income/net profits resolutions, ordinances of Members and regulations of the Bureau and shall, from time to time, advise the Executive Director as to their views upon such interpretation.

¹ A two-third majority of delegates present is required to amend the bylaws.

CONTROL ENVIRONMENT

CTCB follows the employee handbook, organizational chart and internal procedure manual approved by the Board of Directors. Written job descriptions for employees have been developed and are revised as necessary. The confidentiality of user-organization information is stressed during the new employee probationary period and is emphasized in the personnel manual that is issued to each employee.

In 2009, criminal background checks were conducted on all current CTCB employees. Additionally, all potential employees must undergo a criminal background check prior to their hiring. Any potential employee, otherwise selected for hire, whose criminal background check shows a conviction for any crime of dishonesty or felony will not be hired unless and until the Personnel Committee approves his or her hire. Finally, the Board of Directors must approve all new hires. All criminal background checks are conducted through the Pennsylvania State Police.

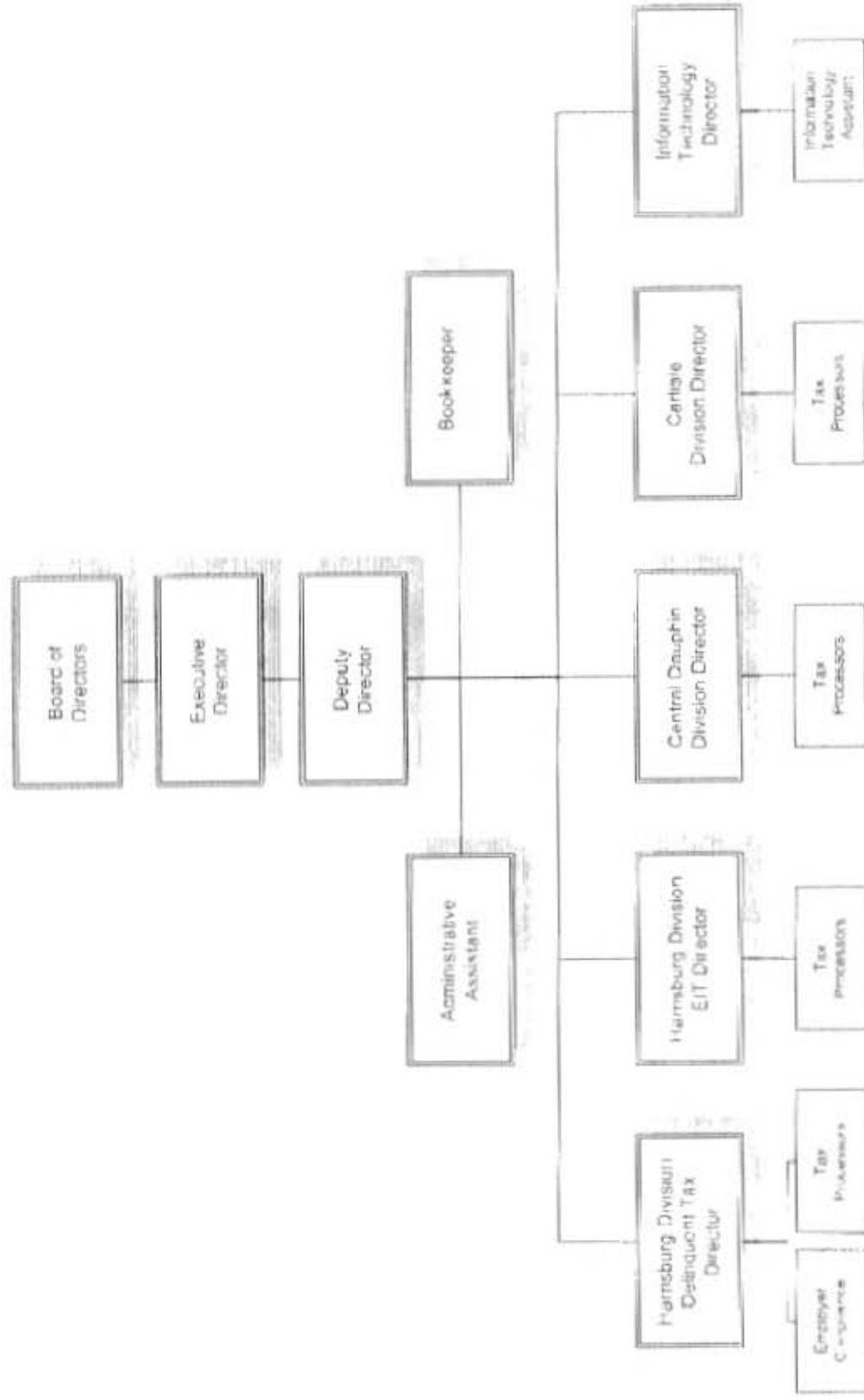
Upon hiring a new employee, the manager of the office in which the new employee was hired must provide written communication to the CTCB IT Director outlining to which internal computer programs the new employee should have access. The amount of access in the tax system given to an employee is based on their job description.

Every new employee has a probationary period for ninety (90) days during which intense training is provided through on the job training and through in-house classes. All employees receive an annual written performance evaluation and salary review. These reviews are based on employee-stated goals and objectives that are prepared and reviewed with the employee's supervisor.

Subsequently, when employees are either terminated or voluntarily quit their employ with CTCB, the IT Director receives written notification from the department manager and he disables or deletes the accounts of the users who are no longer employed by CTCB.

Monthly management meetings are held to discuss special processing requests, operational performance, and the development and maintenance of projects in process.

ORGANIZATIONAL CHART



INFORMATION TECHNOLOGY CONTROLS

Overall Operation of the IT Department

CTCB's tax system was designed in-house by our current IT Director who is responsible for keeping the system updated to handle all new legislation and tax law changes. The IT personnel maintain and support the tax system as well as investigate enhancements to the application using new technologies.

The CTCB IT Department currently consists of two (2) individuals who are both fluent in COBOL and UNIX and who undergo continuing education on a regular basis. Additionally, the IT Director has authored several manuals detailing the tax system so that the IT assistant or another employee could run the system in the event of the IT Director's absence.

CTCB has two Storage Area Networks (SAN). The main SAN is located in the computer room at the Harrisburg Division and the backup SAN is located at a separate CTCB Division more than seven (7) miles away. The tax system is automatically backed up daily onto external tapes which are then secured in a fireproof safe in the Harrisburg Division. Once a week, the backup tapes are transported to the backup SAN and are secured in a lock-box inside of a cement-lined cabinet which is also locked. All computer equipment at CTCB is insured through our package liability coverage.

In addition to updating and operating the tax system, both IT employees manage the printing, insertion and mailing of all notices to both employers and taxpayers serviced by CTCB. Bi-weekly mailing meetings are held to monitor quality control of the mailings and ensure the efficiency of all mailings made by CTCB.

CTCB Server and Operating System Description

The servers utilized by CTCB are all Hewlett-Packard ProLiant series servers. Specifically, the Domain controller that serves as the main file and print server is an HP ML350 G4. Similarly, the server for the exchange email and tape backups is also an HP ML350 G4. There is also an HP ML370 G2 that is used for the UNIX host and a newer ML370 G4 that is configured for LINUX and to take over the UNIX server's functions. The UNIX Server is running the SCO version of UNIX.

The online.captax.com server is a DL and an SQL server to support the database and the model is a DL360 G5. All servers with the exception of the SQL server are running Windows 2003 SP2 and the SQL server is running Windows 2008 64-bit OS. CTCB contracts with PennLantic Systems for Business ("PennLantic") for network administration support. Domain administration rights are limited to CTCB's customer service representative with PennLantic, as well as the two (2) internal IT employees. CTCB also contracts with Softeco/USA for technical support for its UNIX environment. Control of the UNIX systems is limited to the two (2) CTCB IT employees as well as the Softeco/USA representative.

Logical Access

Computer access is monitored on an ongoing basis by the IT department. To log into the Windows system at their terminal, each employee must enter their unique user name and password with the latter being only known by that employee. The password to the Windows system is required to be changed every six months by the employee and must contain a minimum of six characters and must contain one number. Network accounts are locked after three (3) invalid login attempts.

Additionally, to log into the tax system, the employee must enter their unique user name, unique user number, and another password known only to them. The password to the tax system is also changed every six months. The amount of access employees have to the system is based on their UNIX user profile and is determined by their position. The password for the root account in the UNIX system is known only to the two (2) members of the IT department and the Softtec/USA representative.

Network Security

CTCB's network is protected by a SonicWall 2040 firewall enhanced to provide stateful and deep packet inspection of all traffic to and from the CTCB network. The firewall has additional protection deployed in the form of Gateway Antivirus and spyware scanning and also an intrusion protection suite. The firewall is configured for a public demilitarized zone (DMZ) where the online filing server is further secured from the rest of the network.

The network is also protected using content filtering for websites. The network is secured from unwanted email via an Anti Spam software package and exposure is limited to only allowing the Exchange server to forward Simple Mail Transfer Protocol traffic to the Internet. Additionally, each computer and server on the network is configured with McAfee enterprise antivirus software. The antivirus software updates daily.

Remote Access

Access from the Internet is limited to email to and from the Exchange server and Outlook web access to employees' accounts. Remote access to the Windows server is blocked except via logging in via the SonicWall Firewall/VPN device. This is configured for the IT director as well as CTCB's customer service representative from PeriniLantic.

Access to the online server and the SQL server is allowed via the virtual private network ("VPN") for RBA Professional Data Systems (CTCB's individual online filing vendor) to manage the online filing system. CTCB's UNIX vendor, SofttecUSA has access from their company's IP addresses to the UNIX and LINUX hosts. An administrator from the Steelton-Highspire School District has access to port 23 inbound to the

Remote Access (continued)

UNIX server only from the IP address assigned to Steelton-Highspire School District.² CTCB has a Microsoft VPN configured for a CTCB employee to connect from District Justice offices to gain access to the UNIX host.

Tax System Program Changes

CTCB has implemented controls to provide reasonable assurance that changes to the tax system are authorized, approved, tested and documented. Typically, changes to the tax system are minor fixes or enhancements requested by CTCB managers. Requests for enhancements or modifications to the tax system are submitted in writing using a change request form. The form must include the date, the signature of the CTCB manager requesting the change, and the reason for the change.

The requesting manager then gives the signed form to the Executive Director who affixes his initials and the date. The Executive Director then forwards the request form to the IT Director. Either of the IT employees or the requesting manager must first test the change in a test environment. If testing is successful, the tester signs, dates and indicates on the form that no errors were found during testing.

An IT employee now adds the change/addition to the tax system. The employee implementing the change then indicates which program was changed, signs and dates the request form and forwards the same to the Executive Director who keeps the completed form to perform a Change Control Verification Process.

Every week, the Executive Director reviews the log of sequentially numbered, date and time-stamped program changes that cannot be altered, manipulated, truncated or otherwise modified by those with access to make changes to the tax system. Each entry on the change log must be accompanied by an "IT add-change request form" or must be a routine change to the program.

Routine changes to the tax system must appear on a routinely changed program list (which includes the COBOL program name and a description of the program), which was previously approved by the Executive Director. During the change control program reconciliation process, the Executive Director reviews the COBOL language of the program line by line (including both the new code and old code) for irregularities. If a change does not appear on the routinely changed program list or is not accompanied by a change request form, the Executive Director immediately questions the IT Director about the change and verifies the appropriateness of the change.

If training is necessary to run the changed program, it is performed by the programmer who made the change. Training is normally provided at the user's workstation where the programmer will walk the user through the changes that were made.

² The Steelton-Highspire School District administrator updates the Steelton/Highspire SD residents via the census information for the school and borough bills for Steelton and Highspire Boroughs. Additionally, they post the payments that are received by the tax collectors within those political sub divisions.

Tax System Master Files

The Bureau's tax system includes a database of master file records for employers and taxpayers. Each employer and taxpayer has a unique master file record that contains their Employer Identification Number (EIN) or Social Security Number (SSN) and demographic information, such as their name and address. The taxpayer master file records also contain a field for the political subdivision (PSD) of the address for their primary residence, which is the basis for distributing the tax paid by the taxpayer to the proper PSD.

Address changes are received from different sources. Some sources come directly from the taxpayer and indicate the municipality where the taxpayer is domiciled. Certificate of Residence forms and earned income tax returns (Form 531) are received from the taxpayer and the taxpayer is required to list their current municipality. Address changes from the post office, W-2s, other tax collectors, payments and local services tax do not show the municipality.

All address changes are reviewed by the tax processor, which includes checking the taxpayer history and verifying that the address is a legitimate address. If it is determined that the taxpayers address should be updated, this is done on the taxpayer master file.

CTCB utilizes an automated municipality identification (AMI file) system that is constantly updated. If the new address is in the AMI file, the political subdivision (PSD) field will automatically update. If not, a tax processor must verify the PSD using the appropriate source such as the county property tax listing, the Department of Community and Economic Development website, US Census website, other tax bureaus and the taxpayer. All address changes are listed in the individual's address history and the source is listed. All changes are listed in the taxpayer maintenance file and include the name of the user who made the change. These changes are reviewed by supervisory staff on an as needed basis.

Employer address changes are limited to designated tax processors usually in a staff position. Only designated employees can add, delete or modify the employer records. The tax rate tables are embedded in the tax system source code and can only be changed by the IT department through the program change request process. At the request of the Executive Director, the IT Director makes changes to the tax rate tables when necessary.

Physical Security

Physically, the IT department room in the Harrisburg Division is secured by a 5-digit cipher lock. The 5-digit code is known only by the IT Director, IT assistant, Executive Director and LIT director, and is changed whenever an individual with knowledge of the code is terminated. The locked computer room is automatically climate controlled for temperature and humidity. The cooling system for the computer room is on a separate power supply from the rest of the Harrisburg Division. Fire extinguishers are also contained within the locked computer room.

All three CTCB offices are secured by external locks, alarm systems, fire alarms and no less than two surveillance cameras per office. CTCB contracts with a third party vendor to maintain the alarm systems, fire alarms and surveillance for the Harrisburg Division and the Carlisle Division office. The Central Dauphin Division office is located within the Lower Paxton Township municipal office and police station and is

Physical Security (continued)

protected by their security system. Regular maintenance is performed on each alarm system. Only CTCB managers have keys to the exterior doors. All employees know the alarm code for their particular office.

Documents with Sensitive Information

To further protect sensitive information such as social security numbers and dates of birth, CTCB contracts with an outside vendor to destroy documents with sensitive information. All documents, including carbon paper, containing sensitive information, are placed into special designated destruction bins. When the bins are full, a CTCB employee locks the bin. The third party vendor then picks up the locked bin and takes the bin to their facility to destroy the documents. The vendor then provides written and signed confirmation that the documents were destroyed beyond recognition.

OPERATIONAL CONTROLS

PAYMENT RECEIPTS

The majority of the tax payments are received through the mail. As of January 1, 2001, post office boxes were initiated so that tax returns could be separated according to either mail with payments enclosed or mail with forms requesting refunds. The mail for each office is picked up daily by a CFCB employee (hereinafter "courier") of that office. The postman delivers all other mail that is addressed to our actual street addresses. Tax payments are also received from "walk-in" taxpayers. These payments are processed immediately and a receipt is given to the taxpayer.

Opening and Separating Mailed Payments

The mail for each office sent to the corresponding P.O. Box for that office is given a priority based on what it contains. Mail containing payments is opened immediately upon receipt by the mail clerk so that it can be processed as expeditiously as possible. As the mail is opened, it is stamped with a received date. The payments are separated by tax type, year and quarter.

After the P.O. Box mail with payments is opened and separated, the other mail received is opened and separated. The 531 forms (taxpayer annual returns) without payments attached are separated according to refund requests, balance dues, credits to next year, credits to spouse, or zero balance due.

The opened and separated mail for each division is given to the division director, who after verifying that the mail presented to them is correct, gives it to a tax processor to enter the deposit for the day.

Processing Payments

For the Earned Income Tax Department, the tax processors enter the date and batch number into their terminal (each tax processor is assigned a specific number to use as their batch number) for the daily deposit. A unique, sequential validation number consisting of the date, operator ID, and sequence is printed on the supporting documentation for each payment posting, along with the amount of the payment posted to the system. Payments received from employers are posted to the employer's record by Employer Identification Number (EIN), and payments received from taxpayers are posted to the taxpayer's record by Social Security Number (SSN). To ensure that payments are posted to the correct taxpayer or employer, the processor must confirm that the social security number (SSN) or employer identification number (EIN) listed on the computer screen is correct before processing the payment. The tax system will not allow a payment to be posted to an SSN/EIN that is not listed in the taxpayer master file or the employer master file. A running total is shown on the screen for each tax year and type.

After all the payments are entered into the batch for the day, the totals shown on the screen for each form type are entered on to a daily batch sheet. The checks are totaled to verify that the amount matches the total on the daily batch sheet. The checks are then stamped with the CFCB "For Deposit Only" stamp, and the checks along with the attached adding machine tape (hereinafter "tape") and deposit slip are given to the courier to

Processing Payments (continued)

be taken to the bank for deposit. At the Harrisburg Division, only checks are processed in the EIT Department. All cash payments are processed by the Delinquent Department. The Carlisle and Central Dauphin Divisions do not have separate departments at their locations and many of the delinquent and EIT functions are combined.

For the Delinquent Department, at the beginning of the day, the tax processors enter the date and their batch number into their terminal. All payments are entered using the "cash program" in the tax system. Each form is validated with a consecutive validation number along with the date, batch number and payment amount. The check is also validated on the back with the same validation number along with the CTCB "For Deposit Only" information. Walk-in taxpayer's payments are processed immediately and a receipt is given to the taxpayer.

The Delinquent Department processes delinquent tax payments for EIT received at the Harrisburg Office. The Director of the Delinquent Department runs totals on each tax processor terminal. The cash is counted for each of the tax processor's drawers, leaving a balance of \$50.00 in each drawer. The checks are then totaled for each individual drawer. The total of cash and checks for each drawer should equal the amount of payments processed by that particular processor. The total for each drawer is written separately on the deposit slip and then totaled. The deposit slip with checks and cash is given to the courier to be taken to the bank for deposit. At the Carlisle and Central Dauphin Offices, the Division Director counts the drawers for each individual that has access to the cash program and receives cash payments in their respective office.

Because the courier for each office is a CTCB employee, they are covered under the CTCB crime coverage insurance, which is currently \$2 million (\$2,000,000) for each employee.³ The \$2 million (\$2,000,000) coverage is well more than a courier carries on any one day.

The bank deposit is reconciled to payment postings daily by each office manager. Daily computer generated batch reports are run for each type of tax payment received. The total of these batches equal the deposit slip amounts.

Posting of Receipts in General Ledger

Each department director prepares a report, which is given daily to our bookkeeper (who does not have access to the check payments or cash receipts). These reports are either in the form of spreadsheets, validated deposit slips or tapes. After receiving the reports from each department, the bookkeeper makes journal entries to post the deposit amounts into the accounting system. Cash is debited from the amounts shown on each individual deposit slip. The general ledger accounts that correspond to the type of tax payments shown on the breakdowns are credited.

³ In addition to the crime coverage which is \$2 million (\$2,000,000) for each employee, the Executive Director is additionally bonded in the amount of \$5 million (\$5,000,000).

ANNUAL RETURN PROCESSING

W-2/Employer Annual Return Processing

Each employer located within one of the Bureau's member municipalities is required to file an Employer's Annual Reconciliation on Form 512, and file a Form W-2 for each employee from whom wages were withheld. Active employers in the employer master file who do not file a Form 512 or remit withholdings are subject to delinquent collection processes. Upon receipt of the Annual Reconciliation, the tax processor compares the total amount of payments that have been posted to the employers account for the tax year (see Processing Payments section) to the amount claimed by the employer on Form 512. Any differences are investigated and resolved by the tax processor. The tax processor then enters the SSN, wages, and withholdings for each W-2 to post the detail to the taxpayer's record. If an employee is not in the taxpayer master file in the tax system, a record is created.

There are various input controls in the W-2 data entry process. If the address on a W-2 differs from the address in the taxpayer master file, the record is flagged and researched by another processor. To prevent duplicate entries, the tax system will not allow the tax processor to enter more than one (1) W-2 for a taxpayer from a given employer. A running total of the amount of withholdings entered from W-2s is displayed on the screen and compared to the total payments on file for the employer. The processor cannot submit the W-2s for the employer until the W-2 withholdings entered equal the W-2 withholdings listed on Form 512.

Individual Tax Return Processing

The annual tax return for individual taxpayers is Form 531. All 531 forms are audited by a tax processor for mathematical accuracy, use of the appropriate tax rate and accurate address/PSD data, and validated with a sequential batch and validation number. If the taxpayer reports an address on his/her tax return that differs from the address in the taxpayer master file, the tax processor updates the master file record with the new address data. The taxpayer's tax liability is automatically computed by the tax system based on the taxable income and PSDs where the taxpayer lived during the tax year. The tax liability cannot be overridden by the tax processor.

Compliance Process

Compliance is the process of verifying the EIT final returns to make sure all money posted to taxpayer accounts has been collected and distributed to the correct municipality. For each resident taxpayer, the tax system compares the taxpayer's computed tax liability (based on the taxable income and municipality reported on the tax return) to the amount of all payments received for that taxpayer and the PSDs that have been credited. The tax system generates a report of all exceptions, which is reviewed by tax processors and any discrepancies are resolved. Resolution can include, but is not limited to, filing claims with other collectors or employers, contacting the taxpayer for additional information, making an earnings correction, or making a distribution adjustment.

Compliance Process (continued)

When the earnings were reported incorrectly, an earnings correction form must be completed. If the earned income tax was sent to the wrong member municipality, a taxpayer distribution adjustment form must be completed to transfer the funds to the appropriate municipality in the next member distribution. When payment was entered under the wrong social security number, year, employer number or PSD, a debit/credit form must be completed and processed in the tax system. If the local tax was withheld by a non-member employer and was not received by CTCB, a claim request to another tax office must be processed.

CASH DISBURSEMENTS

Bank Reconciliations

All disbursements are made from CTCB's checking account held at Citizens Bank. The Deputy Director, who has no access to the checks and has no signing authority on the bank accounts, reconciles the bank statements monthly. The bank reconciliation balances the balance on the bank statement to the cash account balance in the general ledger. If any item was not posted to the general ledger or if it were posted incorrectly, the reconciliation process will discover the error and then either Citizens Bank is notified or the bookkeeper makes a correcting journal entry internally.

The purpose of performing the bank reconciliation is to look for any outstanding checks or any checks which were incorrectly cashed by the bank. Any discrepancies found by the Deputy Director are brought to the attention of the bookkeeper immediately and all journal entries are posted by the bookkeeper.

Review of Disbursements

A report of all disbursements is exported from the Peachtree accounting system by the Bookkeeper, reviewed by the Executive Director and presented for approval to the Board of Directors at each quarterly meeting.

Equity Distribution

Each year the Board of Directors looks at the financial statements of CTCB and determines if there should be an equity distribution that particular year. If the Board approves an equity distribution, a spreadsheet prepared by the Executive Director and reviewed by the Deputy Director is used to allocate the approved amount to the various members based on their prior distributions and tax rate. The anticipated equity distribution showing the exact amount designated to be paid to each member is presented to the Board for final approval before it is distributed. All calculations are available for Members to review if they desire.

Check Stock

CTCB uses two types of checks. One type is used specifically for our Peachtree accounting program. The Peachtree checks are prepared by the bookkeeper for paying accounts payable and other operating expenses. The second type is a more general check, which can be used for any authorized purpose by designated CTCB managers located at the Harrisburg Division.

The checks arrive at CTCB in sealed delivery boxes. CTCB orders several boxes of check stock at one time. The un-opened boxes are kept in the climate controlled and locked computer room. The unopened boxes of checks are signed and dated across seal by the Executive Director. Signing the seal prevents any checks from being used that are not from the current working check stock. Each time the IT Director opens a new box of blank checks, he informs the Executive Director in writing.

Once a box is opened, the checks from that box are placed into the safe in the Harrisburg division. Only managers have access to the safe. A working check log for each type of check is placed on top of the unused checks. When a manager takes any number of checks from the working check stock, he/she must note that on the log. Any voided checks must also be noted on the log. Further, a second CTCB manager must verify that only those check numbers which appear on the log are being taken from the safe. The second manager also signs the check log. Finally, the Executive Director reviews, signs and dates both check logs each week to confirm that the checks were taken sequentially and that the number of checks used (including voided checks) is identical to the number indicated on the check logs.

Authorized Check Signers

The authorized check signers are the Board President, the Board First Vice-President, and the Executive Director who also serves as the Secretary of the Bureau. All three signatures are required on a check to make it valid.

On December 5, 2007, the CTCB Board of Directors voted a check signing policy/procedure into effect. All signature stamps/slugs are kept in separate locked compartments at all times when not in use. There are three separate slugs (one signature, two signatures, and three signatures).

Two employees (EIT Director and Administrative Assistant to the Executive Director) have access to the one signature stamp with the signature of the Executive Director.

Three employees (the bookkeeper, the IT Director and the IT assistant) have access to the stamps/slugs with the two signatures of the President and First Vice-President. A two-signature slug for use with system-generated checks on the forms buster is also available to these three named employees. The Executive Director must personally affix his signature to any check stamped with the two-signature slug.

A three-signature slug is used exclusively for signing large batches of refund or distribution checks produced by the IT Department. The three signature slug is kept inside a lockbox, inside a locked drawer, inside a locked safe at all times when not being used. Keys to each compartment

Authorized Check Signers (continued)

are only available to the person positions as authorized. The two signature stamp authorized personnel have a key to the safe drawer. Therefore, two personnel are needed for access to the three-signature slug.

The use of the three-signature slug must be immediate upon removal from the safe, and two personnel (one with two signature stamp approval and one with one signature stamp approval) must be with the slug from the time it is removed from its storage, to the point of its return. This specifically includes the entire time the slug is used to endorse the batch of checks. A written log is maintained recording the use of the three-signature slug. The log is located inside a locked drawer inside the locked safe. Such log includes the date and time of use, the check numbers endorsed by the slug, and the signatures of the employees who removed, used and returned the slug to storage.

ACH (Automated Clearing House) Transfers

The Board of Directors voted a policy into effect on December 5, 2007, regarding our ACH processing. The IT Director prepares the ACH batch and transmits it only after having informed another authorized check stamp user, providing that person with detailed written data regarding the ACH batch. The person provided the data approves the confirmation fax received from the transmitting bank after verifying the ACH batch totals. Additionally, the ACH total must be verified via telephone by either the Executive Director or the bookkeeper. Both have a unique user ID and Personal Identification Number (PIN) that they must enter via telephone. If the totals are not called in or do not match the file totals, the bank will not process the payment and will state the reason.

When a refund transaction sent to a taxpayer via ACH is returned by the bank due to errors, the bookkeeper will review the errors and note the reason. If the ACH information was sent incorrectly, the bookkeeper will send the correct information with the next refund batch. If the information is incorrect due to taxpayer error, CTCB foregoes the ACH process and a check will be issued to the taxpayer with the next refund batch.

Operating Expenses

Operating Expenses are paid on the 1st and the 15th of every month (if the 1st or 15th day of the month falls on a weekend or holiday, the first business day following the 1st or 15th is used). Occasionally an operating expense is paid between these dates if immediate payment is necessary. For example, a check may have to be issued to cover the cost of postage for a mailing.

When an invoice is received in the mail, it is given to the bookkeeper to hold in a folder until the 1st or 15th for payment. Purchase orders are prepared for each invoice and then the purchase orders are given to the Executive Director to sign for approval. Other expenses paid on the 1st for which CTCB does not receive an invoice include payment of the monthly rent for the Carlisle Division and Central Dauphin Division offices and mileage reports from employees. Purchase orders are also prepared for these expenses.

Operating Expenses (continued)

After receiving approval on the purchase orders, the bookkeeper prepares the checks, which are coded by the appropriate expense account number in the accounting system at the time they are prepared. The checks are signed according to Bureau check signing procedures. The Executive Director reviews each invoice and operating expense before signing the checks. The signed checks are returned to the bookkeeper where they are prepared for mailing. The bookkeeper then attaches a copy of the invoice to the purchase order and writes the paid date and check number on each. The invoices with attached purchase orders are filed in folders by the appropriate expense account numbers.

Quarterly, the bookkeeper exports a list of all disbursements with the exception of tax refunds, from the accounting system to a report. The report is first given to the Executive Director to review and must also be approved by the Board of Directors.

Payroll Disbursements

Payroll is prepared biweekly by the bookkeeper using Peachtree accounting software. The normal workweek is Monday through Sunday, beginning and ending at midnight on Sunday and consisting of 35 hours. The payroll is prepared following the previous two full weeks and paid on the Friday following the end of the two-week period.

The office managers keep the attendance reports. The attendance reports for each two-week period are given to the bookkeeper before she prepares payroll. Earlier in the pay period, the Executive Director reviews and signs the attendance reports for all three offices. The Executive Director also reviews, signs and dates the payroll disbursements to be made that pay period. No disbursements can be made unless he reviews and approves them. This ensures that payments are reasonable and all individuals on the payroll are current employees.

Payroll disbursements are given through direct deposit to the employee's individual bank accounts or through a payroll check. Peachtree accounting automatically codes payroll disbursements to the salary expense account and payroll withholdings to the proper liability accounts.

Payroll checks are prepared and signed according to Bureau check signing procedures. The IT Director downloads direct deposit payroll amounts to our bank for ACH distribution to our employees' bank accounts on the pay date according to Bureau ACH processing policy. A printout is given to each employee who has their payroll funds directly deposited to show the amount of transfer, the payroll deductions, and year to date information. The bookkeeper prepares the printouts and payroll checks to be given to each employee on the pay date.

The bookkeeper prepares all the necessary payroll reports to each taxing authority (Federal Form 941, State Forms 501, W-3, UC-2, etc.). Employee withholdings are paid to the proper taxing authorities when due and the liability accounts are coded appropriately.

DISTRIBUTIONS

The distribution of the EIT is done on a monthly basis to our members and on a quarterly basis to other tax collectors. EIT collections for a particular month are distributed to members on the 1st business day of the second month after they were collected.

The beginning and cut-off dates for EIT distribution to other collectors are as follows:

- 1st quarter – December 1 through February 28
- 2nd quarter – March 1 through May 30
- 3rd quarter – June 1 through August 31
- 4th quarter – September 1 through November 30

All payments, except current year payments from employers are distributed with the quarter in which they were validated. The most current year W-2s input during the 1st and 2nd quarters are not distributed until the 2nd quarter distribution.

The payment dates for the EIT distribution to other collectors are as follows: April 1 (1st Quarter), July 1 (2nd Quarter), October 1, (3rd Quarter) and December 31 (4th Quarter).

The PSD field of a taxpayer's master file record determines which PSDs will receive distributions of earned income tax collected from that taxpayer. There is a PSD master file in the tax system that contains the effective tax rates and the name and address of the EIT collector for each PSD in Pennsylvania. Using the PSD field, the tax system automatically allocates payment detail to the municipality and school district based on the tax rates for the given tax year. The tax system also calculates the commission that is to be charged to each member based on a percentage of the gross distribution, excluding refunds. The commission percentage is documented in the Bureau's bylaws.

For the 2009 tax year, EIT advance payments are given to our members based on 95% of like tax distributions to each member from the prior year, applied to current year employer 501 receipts. Form 501 is the employer's deposit of earned income tax withholdings. Necessary adjustments are also made when appropriate to consider changes in tax rates, etc. The advances are prepared by the Executive Director and are reviewed by the Deputy Director. **Please note that starting in tax year 2010, CTCB will no longer be providing advances to members or to other collectors as CTCB has adopted the detail method of distribution.**

Several distribution reports are generated by the tax system. For our members, distribution reports are run after the monthly totals are verified from the monthly reports. For other collectors, the quarterly totals are verified from the quarterly reports. A distribution detail report is printed for each PSD, showing the names, addresses, and amounts for each line of payment detail that comprises the detail portion of that PSD's distribution. Finally, a summary report is printed for each of our members showing the total detail of collections for the month, the advance payment, refunds deducted, and commission deducted.

DISTRIBUTIONS (continued)

The summary report to the other collectors shows the total detail of collections for that quarter and the advance payment. A copy of the summary report and the distribution detail is sent along with each distribution payment according to each member's preference of paper reports, diskette, CD or e-mail; unless a member has indicated they do not wish to receive the detail report.

The Data Processing Department prints the distribution checks where needed, which are computer generated according to the amounts shown on the summary reports. All monies collected and unmatched after seven (7) years are distributed to members on a pro-rata basis. The calculation of the pro-rata amounts is prepared by the Executive Director and reviewed by the bookkeeper for accuracy.

Most of our member distributions are made through ACH transfers. The member's bank account and ABA routing information are entered into the system. A report is run showing the member, their account number, their ABA number, and amount of the distribution. The IT Director downloads this information to our bank for distribution on the designated distribution date, according to our ACH processing policy. The bookkeeper prepares the distribution detail and summary reports to be mailed to our members along with a cover letter approximately one week before the distribution date so that they can verify receipt of the funds on the distribution date.

Additionally, the bookkeeper prepares the mailing of the distribution checks and related reports to the other collectors so that they are mailed on the date of the distribution. The bookkeeper then makes a journal entry to the general ledger to post the ACH transfers to our members. The distribution check amounts are downloaded from the computer into a comma delimited file (.CSV) format and this information is imported into the accounting system to code the distribution checks into the general ledger.

Unmatched EIT Distributions

CTCB may receive tax money from employers but never receive any detail or other information from those employers that would allow the Bureau to determine which PSD is entitled to the funds. This money is referred to as unmatched funds. If, after due diligence, CTCB cannot ascertain to which PSD that money is owed, CTCB will conduct an unmatched distribution of those funds.

The unmatched distribution is for the seventh year back from the current year. For example, unmatched funds from 2001 are distributed in 2008. The unmatched distribution calculation is based on the EIT distributions to each of CTCB's members as detailed in the audited financial statements for that year. The unmatched distribution is distributed to the members in proportion to their EIT distributions for that year as a percentage of total EIT distributions to members. The unmatched distribution calculation is prepared by the EIT director and reviewed by the Executive Director. Both date and sign the spreadsheet in which the calculations are contained.

REFUNDS

There is a specific tax processor in each of CTCB's offices to handle EIT refunds. The refund processor audits each return showing a refund due to ensure accuracy. Additionally, the Deputy Director reviews any refunds (including returns filed online) or credits that are greater than \$100, with pro rata limit increase for taxing jurisdictions that have a combined EIT rate in excess of 1.0%, and are related to unreimbursed business expenses or self-employment.

The Deputy Director reviews these returns utilizing various auditing techniques to verify that the return is properly prepared and that any associated business expenses claimed are reasonable with respect to their type of employment. Additionally, the Deputy Director requests supporting documentation from the taxpayer for any large or unusual deductions before the refund is approved and paid. Such requests are tracked in a log maintained by the Deputy Director. If supporting documentation is requested but not provided, the refund is denied.

After reviewing each tax form for accuracy, a refund batch is processed using a Sunday date. For security and efficiency, the tax system automatically makes each check payable to the taxpayer when the checks are printed. For ACH payments, the payment will be returned by the bank if the payee name does not match the name on the account.

The IT Department processes the refund checks from the information entered in the refund batch. Copies of the refund checks and the total of the refund batches are given to the bookkeeper. The IT Department downloads the refund check information from the computer into a .CSV file format and this information is imported into the accounting system to code the refund checks into the general ledger. The bookkeeper reconciles the total of all refund payments to the batch total of all refunds processed in the tax system.

On an annual basis, a 1099-G is printed and mailed to every taxpayer that received a refund during the prior year.

EIT RECONCILIATION

Each month, the Executive Director reconciles the tax system balance of EIT collections payable to the general ledger balance of the EIT collections payable account. This reconciliation is designed to validate the completeness and accuracy of transactions posted to the tax system and general ledger. After completing the reconciliation, the Executive Director signs and dates the EIT reconciliation signature page. The Executive Director's completed reconciliation is then reviewed and verified by the Deputy Director who also signs and dates the signature page.

To provide a third layer of review, CTCB engages an independent accounting firm to review the EIT reconciliation on a quarterly basis. Any discrepancies between the accountants' findings and those of management are discussed and approved by management. Once the third review is complete, the independent accountant signs and dates the signature page.

EIT RECONCILIATION (continued)

In addition to the quarterly review by an independent accounting firm, CTCB also contracts with another independent accounting firm annually to obtain audited financial statements and an audited schedule of collections and distributions, which includes testing a sample of "dollar for dollar" receipts and payments to ensure that the tax revenue is being distributed to the correct political sub division (PSD).

COLLECTIONS

A delinquent tax is any tax which is not paid in full by the due date.⁴ Every CTCB Division handles delinquent accounts for EIT.

The delinquent department uses several techniques in order to collect delinquent money or force a non-filer to file their back years. Some of the tools used by the delinquent department include mailing notices (both standard and certified), wage attachments (both on the taxpayer and spouse), allowing partial payments and filing criminal complaints or non-traffic citations against the delinquent taxpayer.

For convenience, CTCB allows both individuals and employers to pay their balance owed via credit card. This option is available for both walk-in taxpayers and those that file their taxes online. All credit card payments are processed by Official Payments Corporation, a third party. Official Payments charges the taxpayer a processing fee of 3% or \$1.00, whichever is greater, for each credit card payment.

Partial Payments

When a taxpayer receives a past due tax bill for either earned income tax or occupation assessment tax and they are financially unable to pay the full amount, partial payments are accepted by the Delinquent Tax Department. The Bureau attempts to work with the taxpayer and will attempt to establish a payment plan that is suitable to both parties.

No matter what the terms of the agreement, the full balance due should be paid within one year. The taxpayer will be required to make a payment every thirty days to prevent the tax office from taking further action.

A partial payment agreement is printed when the first payment is received. For walk-in taxpayers the partial payment agreement will be completed and signed by the taxpayer and also signed by the CTCB employee at that time. For mail-in taxpayers, the printed agreement should be signed by the CTCB employee and mailed to the taxpayer. This way, the partial payment agreement can be completed by the taxpayer and returned with a subsequent payment.

⁴ Taxes not paid in full are assessed interest and penalties at the rate of 1.2% per annum. The tax system automatically calculates the interest and penalty liability. If a balance due notice is entered during the processing of taxpayer tax returns, a taxpayer claim is automatically created in the system.

Partial Payments (continued)

When a taxpayer owes more than one year of delinquent taxes, their payments are applied to the oldest year first unless the taxpayer requests otherwise. The tax portion of all delinquent EIT is paid first. After the tax portion is paid the interest and penalty is paid next. After the EIT is paid in full, the school taxes are paid.

A partial payment reminder notice is sent to all taxpayers coded for partial payments that have not made a payment within the last thirty (30) days. This gives the taxpayer an opportunity to resume their partial payment agreement before further action is taken. Taxpayers who fail to make payments on partial payment plans are automatically identified by the tax system and subject to standard delinquency notices.

Wage Attachments

When a taxpayer fails to pay an EIT balance due, either from a delinquent notice or when they default on their partial payment agreement, a wage attachment is sent to their employer if their employer is known. If no employer is listed for the taxpayer, but the employer of his or her spouse is known and current, a wage attachment will be sent to the spouse's employer.

A certified letter is always sent to the taxpayer or their spouse at least 15 days prior to the wage attachment being issued. Beginning with calendar year 1995, all certified letters sent prior to a wage attachment are sent to the taxpayer "return receipt requested - restricted delivery."

In most cases, the Bureau does not accept payment from the taxpayer once the wage attachment has been issued. If the Bureau does agree to accept payment from the taxpayer, it must be the full amount to satisfy the wage attachment.

In the event that the Bureau would agree to accept payment from the taxpayer, a letter is sent to the employer stating the wage attachment has been satisfied and to stop the wage attachment immediately. This letter is generated by the tax system but must be prompted by a bureau employee. In most cases, once an employer starts to deduct the wage attachment from the taxpayer's wages or their spouse's wages, no payment will be accepted from the individual.

When a wage attachment is sent to an employer for a taxpayer and they are no longer in their employ (i.e. retired, terminated, etc.), the employer is instructed to make a notation on the wage attachment and return it to our office. All returned wage attachments are processed through the returned wage attachment program so further delinquent collection steps may be taken.

Criminal Complaints³

Taxpayers are sent several notices if they are deemed delinquent. If after a minimum of three notices (one of which is sent certified mail), there is still no response, the taxpayer will be subject to a criminal complaint/citation. A complaint is issued to taxpayers who failed to file their EIT return or pay a balance due. A criminal complaint is issued only after all other means of collection have been exhausted (i.e. wage attachments or personal contact).

CTCB also performs a match with the Pennsylvania Department of Revenue. The Bureau will perform a correlation between the employer money received for an individual and match that to the income that was reported to Revenue. If the amount of employer money equals the local tax liability calculated from the amount of revenue reported to the state, no criminal complaint is issued.

CLAIMS

A claim is any request for funds owed to the Bureau by another collector or an employer. A claim generally occurs when an employer remits withholdings to another collector for a taxpayer that resides within a Captax member municipality, or when an employer withholds taxes from a taxpayer's pay but does not remit the withholdings to the Bureau.

The claims auditor is responsible for all incoming and outgoing claims. This would include all claims received from other tax collectors as well as claims CTCB is sending to other tax collectors. Incoming claims must be handled on a timely basis. CTCB also expects the other tax collectors to handle our claims in the same manner.

Every collector claim and employer claim shows a request number. The IT Director provides all three divisions with a hard copy of all claims. Before second requests are mailed, all claim responses must be processed. There are a few reasons why a claim would proceed to a second request: either the employer or collector did not send a response to the first request, the employer is delinquent, or there is a dispute over the amount of money in the claim. Claims will continue to be mailed until they are paid, the claim is dropped, or a tax year is closed. Any claims that are not subsequently paid in full by the other collector are reported on a claims exception report, which is reviewed by the head auditor.

Payments are posted according to the PSD on the claim. If the taxpayer lived in more than one PSD, a claim will be added for each PSD. If the money comes to CTCB in one payment, that taxpayer will appear on the exceptions report. The claim has to be dropped manually. If CTCB receives only part of the amount requested, that taxpayer will be on the exceptions report. The claims auditor can pull the claim response to see why the full amount was not paid. If CTCB has two claims for the same taxpayer, and only one was paid, the last payment date must be updated on the outstanding claim. All claims will appear on the exceptions report if they are not satisfied in full. This exceptions report is reviewed manually each month by our claims auditor.

³ CTCB used to issue criminal complaints for every county it serves. However, due to an agreement with the President Judge in Dauphin County, CTCB must issue non-traffic citations in Dauphin County rather than private criminal complaints. For purposes of this Section, the term "criminal complaints" refers to both private criminal complaints and non-traffic citations.

CLAIMS (continued)

If the local tax was withheld by a non-member employer but was not received by CTCB, a claim request to another tax office must be processed. It is important that the claim request be sent to the correct tax office. All claims are entered on the claims file and sent out to the other tax bureaus on a quarterly basis. CTCB has 45 days from the first day of the quarter to send claims to other tax offices. The other tax collectors that are sending us claims for taxpayer's local tax should use this same procedure.

CENSUS

The EIT department is responsible for updating CTCB's taxpayer master files by using the census cards or printouts received from our member school districts. This is done in October and November of each year. At the present time, the Harrisburg Division receives census information from all of its school districts except the Harrisburg School District. Additionally, Perry County provides a yearly countywide census. The Carlisle Division receives census information only from South Middletown Township, which only provides information on new residents only.

When the census cards or printouts are received in the CTCB Harrisburg office, the IT Department will run printouts of all active taxpayers within each municipality. The census cards or printouts are verified by checking the third party information in our printout. All changes are written on our printout such as adding taxpayers to our file or deleting taxpayers that are no longer listed on the school district census. Taxpayer status changes are also made on our printouts. After all changes have been done on our printouts, a tax clerk will make the changes to the taxpayer master file and indicate on the printout that the change has been made.

STATE DISCREPANCY

The Bureau participates in a program with the Pennsylvania Department of Revenue to match compensation and net profits/loss as reported on the local earned income tax return against the same items reported on the state personal income tax return.

The electronic media from the Pennsylvania Department of Revenue is received by the Bureau in May of each year. The tax year is two years behind the current year (i.e. 2008 tax year is received in May of 2010). The state wages are added to the history file on the taxpayer master file and are compared to the local tax return. Where there are discrepancies, a designated auditor will pull each tax return and review it to ascertain why there is a variance.

Balance Due Discrepancies

When the state tape is received, a printout of the matched filings with discrepancies is produced by school districts in our batch number/validation number order. Each filing is reviewed to see why the discrepancy occurred. If there is an explanation for the discrepancy (i.e. pro-rated return, spouse's income, etc.) the filing is put back, a reason is written on the printout and no letter is sent to the taxpayer. All other filings are considered

Balance Due Discrepancies (continued)

active and the taxpayers are sent a letter showing the discrepancy. They are to respond by either paying the additional tax (including any interest and penalty) or providing supporting documentation to explain the discrepancy.

After each filing on the printout is reviewed, it is determined which taxpayers should receive a discrepancy letter. The auditor must enter the taxpayer's social security number in the tax system to flag the taxpayer's record as one that should receive a letter during the automated printing process. After this step is completed, the IT department will print the letters and also print a blank tax return (Form 531) to be sent to the taxpayer.

At the point when the IT Department prints the discrepancy letters to be sent to the taxpayers, an automatic filing is posted to the taxpayer's history file showing the discrepancy earnings. If the taxpayer pays the discrepancy balance due in full, the auditor will pull the return from the work in process file, process the payment and attach the filing to the payment receipt in their batch.

If the taxpayer makes a partial payment on the discrepancy balance due, or if the auditor receives information from the taxpayer and it is determined the discrepancy is no longer a discrepancy, but a balance due, the auditor must process the taxpayer's social security number through the void discrepancy program. This will instruct the IT Department that this balance due is now a regular balance due and not a discrepancy balance due.

If the taxpayer returns the discrepancy letter showing the reason for the discrepancy and it is determined that the additional income is not taxable for earned income tax purposes, the auditor prepares an earnings correction to back out the discrepancy earnings. Because the discrepancy balance due has already been added to the claims file, the auditor deletes the claim. The earnings correction slip should be attached to the final return and given to the EIT department for processing.

Non-filer Discrepancies

Another process of using the state tape is for the IT Department to print a list of all taxpayers reported on the state tape that listed one of our member school districts on their state return, but are not on our Taxpayer Master File. This printout is reviewed for errors, such as duplicates with wrong social security numbers or wrong school districts listed on state return.

After making corrections, a letter with a final return is sent to the taxpayer. The record status on the taxpayer master file is an inactive status until the taxpayer makes contact with our office. No notices for other tax years or types are sent to the taxpayer unless their file is updated. When a tax filing is received from the taxpayer, the taxpayer master file is updated.

ONLINE FILING FOR INDIVIDUAL TAXPAYERS

Beginning with the 2008 tax year, CTCB offers individual taxpayers the option to file their tax returns online. In conjunction with the online filing application, new controls were developed.

Taxpayer Access to the Online System

In order to access the online system, the taxpayer must enter their social security number, a personal identification number and a captcha⁶ listed in the margin on the entry screen. If any or all of the required information, social security number, PIN or captcha is incorrect the system will reset itself for another attempt. The captcha will reset and a new group of letters will be used. These controls are designed to protect the system from attempts to access the system through brute-force password attacks.

Each taxpayer is assigned a five digit PIN to be used when they are signing on to file their earned income tax return online. The PIN is generated by the Bureau and is specific for only that taxpayer. If the taxpayer enters an incorrect PIN, they will be notified by an error message and denied entry into the online filing system. If the taxpayer loses their PIN or needs a new PIN, they must contact the Bureau and make the request. The PIN will be mailed to the address listed in the taxpayer master file. No PINs will be given over the telephone.

Security

The online filing website is secured using 128-bit Secure Sockets Layer (SSL) encryption with a valid certificate from Equifax Secure Global eBusiness CA-1. The web server is placed on a demilitarized zone on the Captax network, separated from the Bureau's other servers by a firewall.

Input Controls

There are various input controls in the online filing system to prevent errors by the taxpayer during the data entry process. Certain data fields are designated as required fields and must be completed before the system will allow the taxpayer to proceed to the next screen. The tax rate applied to the return is automatically determined based on the tax rate for the PSD(s) selected by the taxpayer for the address(es) where they lived during the tax year. The amounts on the final return are calculated from input screens for address data, income, expenses, and credits and cannot be changed by the taxpayer.

⁶ A CAPTCHA is a group of letters or numbers embedded in an image that cannot be read by a computer. The system requires the user to enter a CAPTCHA in order to prohibit a computer-generated attack designed to file repetitive returns to cause a jam in the system and/or use all existing storage.

Data Processing – Download from Public Server to Private Server

First, the online filing program copies the tax return information from the public web server to the private database server, loads the database and archives the original encrypted tax return XML files.⁷ Before beginning a new download, the program checks to see if the previous download completed successfully (to verify that either of the servers or the network did not malfunction.) If the previous download did not complete successfully, the program determines where in the process it failed, and continues the previous download to conclusion. This ensures that all tax returns were transferred completely and accurately to CTCB's tax system. When the previous download is verified as completed, the program will then continue with the normal download process.

The download program first determines what returns have been submitted that need to be downloaded to the private server. The program assigns a unique identifier for this batch, and computes the control totals for the selected returns. Using the batch identifier, the database control table is updated with this control information. The return files are copied to the private server, and the individual return identifiers are added to the index table.

In order to prevent the ability to alter or delete any electronically filed returns, after all the files have been transferred, the return files are deleted from the web server. The batch control totals are then re-computed on the private server and compared to the totals created by the public server. These must match to ensure all return files were transferred properly. If a validation error exists, an error is logged and notification sent.

Data Processing – Create Extract from Private Server

As a data extract is created, it is assigned a unique identifier and control totals are computed for the returns included in the extract. Using the extract identifier, the database control table is updated with this control information.

Two sets of control totals are included with each extract. The control totals for the full extract are included, as are the control totals for each individual return in the extract. Extracts may be re-run at the discretion of the user.

If the same taxpayer files multiple returns, the online filing system assigns a new Return ID and passes the data on to CTCB, the most recent return having the highest Return ID. The multiple returns are then manually reviewed by a tax processor to determine if the subsequent return was an amended return or a new return altogether.

⁷ The tax return is encrypted at all times until it is successfully transferred into CTCB's tax system.

Data Processing – Upload Extract to Tax System

The upload program retrieves a list of returns that have been transferred and not been loaded. The program then uploads each return into the CTCB tax system database. If the program determines that any return cannot be loaded, an error is logged and notification sent. If the batch totals cannot be validated against the control totals, an error is logged and notification sent.

An audit verification program verifies that all return data uploaded during a specified time period concurs with the batch control totals created during the download. A report is created, listing all batches and returns in error. Bi-weekly, the IT Director prints the comparison of control totals from the download to the upload. He signs and dates the report and provides it to the Executive Director who then reviews the totals and also signs and dates the report.

Data Entry Verification

To verify the validity of returns filed online, each return is manually reviewed by a tax processor. A report is generated from the tax system that compares the name and address data from the online filing to the existing taxpayer master file record, and shows the amount of any overpayment or balance due. From this report, the processor can identify whether or not an address change may be necessary. The processor accesses the tax return data in the online filing system and prints the return to paper. The processor keys in the return data as if it were a paper return mailed to the Bureau, and validates the printout with the sequential batch and validation number. For even returns (no balance due or refund-due), the return data is automatically populated from the online filing system extract, and the processor confirms the accuracy of the entry. If the online filing return does not make sense or is missing information, the processor sends a request letter to the taxpayer to obtain the needed information.

CONTROL OBJECTIVES AND RELATED CONTROLS

Capital Tax Collection Bureau's (CTCB) control objectives and related controls are included in Section III of this report, "Information Provided by the Service Auditor," to eliminate the redundancy that would result from listing them in Section II and repeating them in Section III. Although the control objectives and related controls are included in Section III, they are, nevertheless, an integral part of CTCB's description of controls.

CONTROL CONSIDERATIONS AT THE USER ORGANIZATION

The controls at Capital Tax Collection Bureau (CTCB) relating to Earned Income Tax collection cover only a portion of the overall internal control. It is not feasible for the control objectives related to the collection of Earned Income Tax to be achieved solely by CTCB. The user organizations' internal control also forms part of the overall control environment and must be evaluated in conjunction with CTCB's controls and related testing summarized in Section III. In certain situation, the application of specific controls by the client organizations is necessary to achieve certain control objectives included in this report.

This section highlights those internal control responsibilities that CTCB believes should be present for each user. For users to rely on the controls reported on herein, each client must evaluate its own internal control to determine if the following procedures are in place. These controls, which address the interface and communication between each client and CTCB, are not intended to be a complete listing of controls related to the financial statements of each user.

- User organizations must notify Capital Tax Collection Bureau of any changes in the resident and non-resident earned income tax rates for their political subdivision(s).
- User organizations must notify the Bureau of any changes to the organization's bank account and/or routing number if the organization receives distributions through ACH transfers.
- User organizations are responsible for comparing the ACH transfer amount or check amount to the distribution summary that is mailed to each organization when distributions are made, and notifying the Bureau of any discrepancies in a timely manner.
- User organizations are responsible for having a representative attend and participate in Board of Directors' meetings.

SECTION III – INFORMATION PROVIDED BY THE INDEPENDENT SERVICE AUDITOR

This section presents the following information provided by the Bureau:

- o The control objectives specified by management of the Bureau
- o The controls established and specified by the Bureau to achieve the specified control objectives

Also included in this section is the following information provided by the independent service auditor:

- o A description of the testing performed by the service auditor to determine whether the Bureau's controls were operating with sufficient effectiveness to achieve specified control objectives. The service auditor determined the nature, timing, and extent of the testing performed.
- o The results of the service auditor's tests of operating effectiveness.

CONTROL OBJECTIVES, CONTROLS AND TESTS OF OPERATING EFFECTIVENESS

Control objective 1: Controls provide reasonable assurance that payments received are recorded completely and accurately.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Checks are restrictively endorsed when a return is processed.	Observed the restrictive endorsement of checks during return processing.	No relevant exceptions noted.
For each employee who receives cash payments, the cash deposit is reconciled to cash postings daily by each office manager.	For a sample of business days, examined the daily cash deposit reconciliations for completeness and accuracy.	No relevant exceptions noted.
The custody of cash receipts, authorization of cash disbursements, and recording of transactions in the general ledger are segregated.	Made inquiries of management regarding the process for receiving and posting cash and checks to verify that the bookkeeper has no access.	No relevant exceptions noted.

Control objective 1 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
The system will not allow a payment to be posted to an Social Security Number (SSN) or Employer Identification Number (EIN) that is not listed in the taxpayer master file or employer master file.	Observed a data entry clerk unsuccessfully attempt to post a payment to an SSN that was not in the taxpayer master file. Observed a data entry clerk unsuccessfully attempt to post a payment to an EIN that was not in the employer master file.	No relevant exceptions noted. No relevant exceptions noted.
When a SSN/EIN is entered to post a payment, the taxpayer / employer name is displayed on the screen and the processor must confirm that name is correct before processing the payment.	Observed the processor confirm the taxpayer's name during the payment posting process. Observed the processor confirm the employer's name during the payment posting process.	No relevant exceptions noted. No relevant exceptions noted.
A unique, sequential validation number consisting of the date, operator ID, and sequence is printed on the supporting documentation for each payment posting, along with the amount of the payment posted to the system.	Examined the validation number and payment amount on processed documentation.	No relevant exceptions noted.
The book balance of cash is reconciled to system activity on a monthly basis by the Deputy Director, who is independent of the cash receipts and cash disbursements processes. The reconciliations are reviewed for accuracy and unusual items by the Executive Director.	For a sample of months, examined the bank reconciliation for completeness and evidence of review.	No relevant exceptions noted.

Also note the results of testing for the following controls that are listed elsewhere and relate to the achievement of this control objective:

- Compliance Process: Control Objective 3 - Tax Liabilities
- Balance Due Notices: Control Objective 5 - Collections

Control objective 2: Controls provide reasonable assurance that custody of cash is adequately controlled and restricted.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
A listing of all disbursements is approved by the Board of Directors on a quarterly basis.	Reviewed minutes from Board of Directors meetings minutes for evidence of review and approval of the disbursement list	No relevant exceptions noted.
Signing authority is restricted to three (3) individuals – the Board President, Board Vice President, and the Executive Director.	Inspected a copy of the signature card for the Bureau's operating account.	No relevant exceptions noted.
Check signing plates are kept in a locked safe in the computer room, which is also secured with a cipher lock. A stamp containing 2 of the 3 required signatures is kept in a locked drawer under the control of the bookkeeper.	Observed the check signing plates in the locked safe and verified that they agreed to the signature card. Observed the signature stamp in a locked drawer in the bookkeeper's desk.	No relevant exceptions noted. No relevant exceptions noted.
When ACH transactions are used to disburse funds, the IT manager initials the transfer and the bookkeeper submits the batch totals to the bank. The bank will not process the batch if the totals supplied by the bookkeeper do not match the transaction file. The bank faxes a confirmation to the bookkeeper when the file has been processed.	For a sample of ACH disbursements, examined the bank confirmation and verified that it agreed to the batch totals.	No relevant exceptions noted.
Blank check stock is stored in a secured area that is restricted to authorized individuals. The starting and ending check numbers and 2 signatures must be recorded in a log whenever checks are removed. Full boxes of unused checks have been signed across the seal by the Executive Director to detect tampering.	Observed the secure storage of unused check stock.	No relevant exceptions noted.

Control objective 2 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Wire transfer requests must be authorized by all three of the Bureau's authorized signers and submitted to the bank by fax. The bank performs a call-back procedure to one of the signers to confirm the authenticity of the wire request before it is processed.	Inquired of the procedures for wire transfers initiated by the Bureau. (No wire transfers were initiated during the examination period.)	No relevant exceptions noted.

Also note the results of testing for the following controls that are listed elsewhere and relate to the achievement of this control objective:

- Segregation of Duties for Cash: Control Objective 1 – Cash Receipts
- Bank Account Reconciliation: Control Objective 1 – Cash Receipts

Control objective 3: Controls provide reasonable assurance that taxpayers' earned income tax liabilities are reported and calculated completely and accurately

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
All tax returns are audited by a tax clerk for mathematical accuracy, use of the appropriate tax rate, and accurate address data. Any differences between the address on the tax return and the address in the taxpayer's master file record are corrected during the audit process.	Performed a walkthrough of the audit process and verified that the clerk verifies the mathematical accuracy, tax rate, and address data. For a sample of tax returns, compared the tax rate used to compute the taxpayer's tax liability to the effective tax rate for the political subdivision(s) where the taxpayer lived during the tax year for accuracy.	No relevant exceptions noted.
	Performed a walkthrough of the taxpayer master file correction procedure.	No relevant exceptions noted.
	For a sample of tax returns, compared the taxpayer data on the tax return to the taxpayer master file for accuracy.	No relevant exceptions noted.
Batch totals for W-2 data entry are compared to Form 512 (Employer Annual Reconciliation) and any differences are investigated and corrected.	Performed a walkthrough of the W-2 data entry process and observed the correction process.	No relevant exceptions noted.
If a taxpayer moves to a new address, the tax system automatically assigns the PSD that was associated with the previous resident of that address. If it is a new address, the clerk will use property tax records or the US Census website to determine the appropriate PSD and assign it to the taxpayer.	Performed a walkthrough of an address change and observed that the system automatically assigned the previous resident's PSD to the new resident. For a sample of taxpayers, used the US Census website or other mapping data to validate the accuracy of the PSD assigned to the taxpayer.	No relevant exceptions noted.

Control objective 3 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Access to the tax rate tables is restricted to the IT department. The Executive Director requests and verifies changes when necessary.	Inquired of the IT Manager of the system configuration that prevents unauthorized changes to the tax rate tables. Observed the login process of a non-IT employee and verified that their login credentials did not provide access to the program libraries.	No relevant exceptions noted. No relevant exceptions noted.
Compliance Process - For each resident taxpayer, the tax system compares the taxpayer's reported tax liability to the amount and municipality of all payments received for that taxpayer and generates a report of all exceptions. This report is manually reviewed and any necessary corrections or follow-up procedures are performed.	Performed a walkthrough of the compliance process. For a sample of entries on the compliance report, examined the action taken by the processor for appropriateness.	No relevant exceptions noted. No relevant exceptions noted.
State Discrepancy - Data is received from the State of Pennsylvania listing all taxpayers who filed a state tax return listing a school district within the jurisdiction of CTCB. The tax system compares the earnings and locality reported to the state to the amounts and locality reported on the local tax return. If there are discrepancies, corrections are made or the taxpayer is notified and required to file a return, substantiate the difference, or pay tax on the additional wages.	Performed a walkthrough of the state discrepancy process. For a sample of entries on the state discrepancy report, examined the action taken by the processor for appropriateness.	No relevant exceptions noted. No relevant exceptions noted.

Control objective 4: Controls provide reasonable assurance that earned income tax distributions to taxing authorities are complete and accurate.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
<p>The Executive Director reconciles the balance of EIT collections payable in the tax system to the balance of EIT collections payable in the general ledger on a monthly basis. The reconciliation is reviewed and signed-off by someone other than the preparer on a quarterly basis.</p>	<p>For a sample of quarters, inspected the EIT collections payable reconciliation for evidence of completion and independent review.</p>	<p>No relevant exceptions noted.</p>
<p>Based on PSD information in the taxpayer master file records, the tax system automatically calculates the total of all payment detail posted to each jurisdiction, which is subsequently paid to the jurisdiction in a monthly distribution.</p>	<p>For a sample of taxpayer payments, used the US Census website or other mapping data to determine the PSD for the address on the tax return, and traced the payments to the detail distribution report for the municipality and school district where the taxpayer resided.</p>	<p>No relevant exceptions noted.</p>
	<p>Verified that the payment was split between the municipality and school district accurately based on the tax rates in effect for the tax year on the return.</p>	<p>No relevant exceptions noted.</p>
	<p>For a sample of municipalities, footed the detail distribution report to verify the completeness and accuracy of the calculation.</p>	<p>No relevant exceptions noted.</p>
	<p>For a sample of municipalities, compared the distribution amount from the detail distribution report to the check register for accuracy.</p>	<p>No relevant exceptions noted.</p>
	<p>Traced the ACH totals from the check register to the ACH batch total confirmation received from the bank to verify the completeness and accuracy of the check register for that month's distribution.</p>	<p>No relevant exceptions noted.</p>

Control objective 4 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
The tax system automatically deducts a standard commission percentage from each member distribution payment.	For a sample of member distribution payments, recalculated the commission amount for accuracy.	No relevant exceptions noted.
All monies remitted by employers for which no supporting detail is received within 7 years are distributed on a pro-rata basis to those school districts and municipalities that were members during the applicable tax year. The calculation of the pro-rata amounts is prepared by the Executive Director and reviewed by the bookkeeper for accuracy.	Inspected the calculation for the distribution of unmatched funds for evidence of independent review.	No relevant exceptions noted.

Also note the results of testing for the following controls that are listed elsewhere and relate to the achievement of this control objective:

Bank Account Reconciliation: Control Objective 1 – Cash Receipts
 ACH Payment Reconciliation: Control Objective 2 – Cash Custody
 Compliance Process: Control Objective 3 – Tax Liabilities

Control objective 5: Controls provide reasonable assurance that uncollected earned income tax liabilities are identified and subject to appropriate collection procedures.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Active, resident taxpayers and employers in the Bureau's taxpayer and employer master files who do not file an annual return with the bureau are automatically mailed 3 notices. If a return is still not filed, a criminal complaint or citation is issued. An exception is made if a taxpayer's W-2 withholdings equal the total liability computed based on the income reported on the taxpayer's state income tax return.	Performed a walkthrough of the criminal complaint process and obtained evidence that the process is performed for both taxpayers and employers who fail to file annual return.	No relevant exceptions noted.
On a monthly basis, balance due notices are automatically generated and mailed to all taxpayers and employers who have an outstanding balance due or claim. After a third notice (sent certified mail) is sent, the taxpayer or employer is subject to a wage attachment (taxpayers only) or civil complaint.	Observed the balance due notice printing/mailing process. Compared the balance due printed on a notice to the balance due in the system for accuracy. Inquired of the process for ensuring the completeness of wage attachments and civil complaints.	No relevant exceptions noted.
The system automatically applies interest and penalties to delinquent tax liabilities at the rate of 12% per annum.	For a sample of delinquent tax liabilities, recalculated the interest and penalties for accuracy.	No relevant exceptions noted.
Claims are filed for amounts paid to other tax collectors for CTCB resident taxpayers that have not been paid to CTCB. Any claims that are not subsequently paid in full by the other collector are reported on a claims exception report, which is reviewed by the head auditor.	Performed a walkthrough of the claims process. Reviewed a sample of claims exception reports for evidence of review by the head auditor.	No relevant exceptions noted. No relevant exceptions noted.

Control objective 5 (continued)

Also note the results of testing for the following controls that are listed elsewhere and relate to the achievement of this control objective:

Compliance Process: Control Objective 3 – Tax Liabilities

State Discrepancy: Control Objective 3 – Tax Liabilities

Control objective 6: Controls provide reasonable assurance that refunds paid to taxpayers are complete, accurate and authorized.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Refund clerks audit each return showing an overpayment for accuracy.	Reviewed a sample of returns with an overpayment for evidence of review by a refund clerk.	No relevant exceptions noted.
The Deputy Director reviews and approves refunds or credits that are greater than \$100 (with a pro-rata increase for taxing jurisdictions that have a combined EIT rate in excess of 1.0%) and related to unreimbursed business expenses or self-employment.	For a sample of refunds over the threshold, examined evidence of the Deputy Director's review.	No relevant exceptions noted.
The Deputy Director requests supporting documentation from the taxpayer for any large or unusual deductions before the refund is approved and paid. Such requests are tracked in a log maintained by the Deputy Director.	Observed the Deputy Director's documentation tracking log For a sample of refunds reviewed and approved by the Deputy Director, verified that the refund was not paid until after it was approved.	No relevant exceptions noted. No relevant exceptions noted.

Also note the results of testing for the following controls that are listed elsewhere and relate to the achievement of this control objective:

- Segregation of Duties for Cash: Control Objective 1 - Cash Receipts
- Bank Account Reconciliation: Control Objective 1 - Cash Receipts
- ACH Payment Reconciliation: Control Objective 2 - Cash Custody
- Compliance Process: Control Objective 3 - Tax Liabilities
- State Discrepancy: Control Objective 3 - Tax Liabilities
- EIT Collections Payable Reconciliation: Control Objective 4 - Distributions

Control objective 7. Controls provide reasonable assurance that changes to information technology systems are authorized, tested, approved, and documented.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
A list of routine maintenance changes has been documented and approved by the Executive Director.	Examined a list of routine maintenance changes for evidence of Executive Director approval.	No relevant exceptions noted.
Requests for non-routine program changes are documented and authorized by someone independent of the IT department.	For a sample of non-routine changes, examined the Program Change Request form for completeness and evidence of independent authorization.	No relevant exceptions noted.
A system-generated log of program changes is reconciled to the list of approved maintenance changes and approved change requests by the Executive Director on a weekly basis. The system generated log cannot be deleted or modified by IT personnel.	For a sample of weeks, examined evidence of the Executive Director's review of program changes. Inquired of the technical safeguards that prevent the system-generated log from being deleted or modified.	No relevant exceptions noted. No relevant exceptions noted.
All non-routine changes are subjected to standard testing procedures. The results of testing are documented, and the tester(s) sign-off to evidence the change satisfies their requirements.	For a sample of non-routine changes, examined the Program Change Request form for evidence that the change was tested.	No relevant exceptions noted.
Access to the program libraries is restricted to 2 individuals - the IT Manager and the IT Assistant.	Observed system configuration parameters that prevent access to program libraries by anyone other than the IT Manager and IT Assistant.	No relevant exceptions noted.

Control objective 8: Controls provide reasonable assurance that logical access to information technology systems and data is limited to authorized individuals.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Each employee has been assigned a unique user ID and password for authenticating to the network and the tax system.	Examined a list of network and tax system IDs to verify that each employee has a unique user account. Observed the network and tax system authentication processes and verified that passwords are required for access.	No relevant exceptions noted. No relevant exceptions noted.
Network passwords must consist of at least 6 characters, and must be changed at least every 180 days. Accounts are locked after 3 invalid attempts until unlocked by an administrator.	Examined the Active Directory account policies and verified that they were consistent with management's description.	No relevant exceptions noted.
The tax system records audit logs of changes made to master files, including the date, user, field changed, and previous value.	Examined an audit log and verified that it contained relevant data.	No relevant exceptions noted.
External access to the Bureau's computer network is controlled by a SonicWALL firewall. The firewall is configured to only allow authorized individuals to access the network through the firewall.	Examined the configuration of the firewall's access rules to verify that access is restricted to authorized individuals.	No relevant exceptions noted.
Administrator rights are appropriately restricted to those individuals assigned to perform administrator functions.	Examined reports of users with administrator rights to Active Directory and the Unix environment and verified that access is appropriately restricted.	No relevant exceptions noted.

Control objective 8 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
When an employee is hired, terminated, or transferred to a new position, the employee's office manager submits a Program Change Request Form to request the appropriate system access change. The change is authorized by the Executive Director, implemented by the IT Manager, and tested by the office manager.	<p>Observed the Bureau's system access change procedures.</p> <p>For a sample of personnel changes, examined the Program Change Request form requesting the appropriate system access change.</p>	<p>No relevant exceptions noted.</p> <p>Exception noted: There was one personnel change during the examination period, and a Change Request form was not completed to make the system access change.</p> <p>Management Response: Subsequent to February 28, 2010, a Change Request form was completed and the access was changed accordingly.</p>
	Compared the Active Directory users to the most recent payroll register to ensure that all users are active employees.	<p>Exception noted: Of the 48 active user accounts in Active Directory, 3 belonged to individuals who are no longer employed by the Bureau.</p> <p>Management Response: Subsequent to February 28, 2010, Change Request forms were completed and the non-employee accounts were removed.</p>

Control objective 9: Controls provide reasonable assurance that physical access to computer equipment, storage media, and sensitive information is limited to authorized individuals.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
All three (3) office locations (Harrisburg, Central Dauphin, and Carlisle) are secured with door locks, alarm systems, and video surveillance.	Observed the locks, alarms, and surveillance at each of the (3) office locations.	No relevant exceptions noted.
All servers and other critical computer equipment are housed in the computer room at the Harrisburg Office, which is secured with a cipher lock. Knowledge of the combination to the lock is restricted to IT staff and Harrisburg Office managers.	Observed the servers and critical computer equipment inside the area secured with the cipher lock. Inquired of procedures for changing the combination when someone with access to the room is terminated.	No relevant exceptions noted. No relevant exceptions noted.
Backup tapes are locked in a vault at the Harrisburg office before they are taken to the Central Dauphin office for off-site storage.	Observed the tapes inside the locked vault at the Harrisburg office and verified that the dates on the tapes agreed with the prescribed rotation schedule.	No relevant exceptions noted.
Off-site backup tapes are secured in a lockbox inside the safe at the Central Dauphin office.	Observed the tapes inside the lockbox at the Central Dauphin office and verified that the dates on the tapes agreed with the prescribed rotation schedule.	No relevant exceptions noted.
Any and all documents, including carbon paper, are put into a special designated destruction bin. A third party vendor locks the bin and transports it to their facility, where the contents are destroyed. A Certificate of Destruction is maintained for each destruction.	Observed the destruction bins at each office location. Observed the Certificate of Destruction for a document destruction.	No relevant exceptions noted. No relevant exceptions noted.

Control objective 10: Controls provide reasonable assurance that data and payments received via the Internet are secure and authorized, and processed completely and accurately.

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
The online filing system will not allow a return to be submitted if required fields are blank. Mathematical calculations are automatically performed by the online filing system and cannot be manually overridden by the taxpayer.	Observed the entry of a tax return in the online filing system and verified that the user could not continue without entering data in required fields. Verified that the mathematical calculations could not be overridden by the user.	No relevant exceptions noted.
Each taxpayer is assigned a unique, 5-character password that must be successfully entered before they can submit their tax return. Passwords are mailed to taxpayers with their preprinted tax return and never given over the phone.	Observed the online filing authentication process and verified that a valid password is required for access. Examined a preprinted tax return and verified that it contained the taxpayer's 5-character password. Inquired of individuals with access to taxpayer passwords to confirm the reset procedure.	No relevant exceptions noted. No relevant exceptions noted. No relevant exceptions noted.
The authentication process for the online filing system includes a CAPTCHA, which requires the user to accurately enter a 6-digit number embedded in an image.	Observed the online filing authentication process and verified the inclusion of the CAPTCHA.	No relevant exceptions noted.
Control totals have been developed for the online system and the tax system. When records are automatically transferred to the tax system, the total number of records and earned income transferred is compared to the total received. Exceptions are investigated and resolved.	For a sample of extracts, verified that the control totals were reviewed and any exceptions were investigated and resolved.	No relevant exceptions noted.

Control objective 10 (continued)

Controls Specified by Capital Tax Collection Bureau	Testing Performed by Stambaugh Ness	Results of Tests
Returns filed online are assigned a sequential number in chronological order. A confirmation screen containing the return number is displayed after the return is submitted. The return number is automatically assigned to the online payment if the user pays the balance due with their returns and cannot be changed.	Observed the entry of a tax return in the online filing system and verified that a unique, sequential return ID was assigned to the return. Observed the same return ID in the online payment application.	No relevant exceptions noted.
Online returns are manually reviewed by a tax processor for reasonableness and address changes. If additional information is needed to process the return, a request letter is mailed to the taxpayer.	Performed a walkthrough of the online return review process with a tax processor.	No relevant exceptions noted.
The web server used to receive online returns is located in a demilitarized zone (DMZ) on the network. Tax records are automatically swept from the online server to a server behind the firewall every 10 minutes. Access to the secure server is restricted to system and network administrators.	Examined logical access to systems and programs as described in Control Objective 8. Examined a network diagram of the online filing system and confirmed the placement of the web server in the DMZ.	See control objective 8 for the results of tests. No relevant exceptions noted.
The online filing website is secured using 128-bit Secure Sockets Layer (SSL) encryption.	Examined the online filing website's certificate and verified that 128-bit SSL encryption is used.	No relevant exceptions noted.

SECTION IV – OTHER INFORMATION PROVIDED BY THE BUREAU

DISASTER RECOVERY PLAN

In the event of a business disruption, the Bureau has established policies, procedures and an evolving document known as the Disaster Recovery Plan (DRP). The DRP accounts for changes in technology, telecommunication operation and CTCB's business environment. Copies of the DRP are secured off site with CTCB managers. Our employees, vendors, insurance coverage and equipment have all been taken into consideration during the preparation of the DRP. The procedures are reviewed and updated at least annually by CTCB personnel. External auditors also annually review and make recommendations regarding the procedures and processes in place if a disruption would occur.

TECHNOLOGY

Being a member-driven organization, CTCB is always striving to maximize tax revenues while minimizing the costs of collection to its members. One of the most effective cost-reducing strategies is by utilizing the latest technology. Over the past two years, CTCB has taken an aggressive approach in harnessing new technology. While reducing costs, CTCB's new technology also provides greater convenience to our taxpayers, employers and members. Specifically, CTCB is the only tax collector in the mid-state to offer taxpayers the ability to file both a short form or long form tax return online. Also, beginning with 2010 tax year, CTCB also allows our employers to file their quarterly detail and pay their taxes online via ACH. As a matter of convenience, CTCB gives employers and taxpayers the ability to pay their taxes via credit card.

Additionally, as of 2009, CTCB prints, folds, stuffs and mails all tax forms and other correspondence in-house. The advantages of in-house printing are retaining control over outgoing documents as well as lowering costs. To further minimize postage costs, CTCB has purchased the latest G2 software which drastically lowers the cost of sending certified mail. All tax forms for both employers and individuals are available on our comprehensive website. By offering the forms online, CTCB reduces the number of mailings we send out annually which holds down both printing and postage costs.

ACT 32

In order to be Act 32 compliant, starting in 2010, CTCB will no longer provide any advances to its members or to other collectors. CTCB has adopted the detail method of distribution and now requires employers within its jurisdiction to file the detail with CTCB on a quarterly basis.

CAPITAL TAX COLLECTION BUREAU

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007
&
INDEPENDENT AUDITORS' REPORT
&
ADDITIONAL INFORMATION

CONFIDENTIAL

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Capital Tax Collection Bureau
Harrisburg, Pennsylvania:

We have audited the accompanying statement of net assets of the Capital Tax Collection Bureau (the "Bureau") as of December 31, 2008 and 2007, and the related statement of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Capital Tax Collection Bureau as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements but is 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 this supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information presented on pages 21 to 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Parente Randolph, LLC

Mechanicsburg, Pennsylvania
July 14, 2009

CAPITAL TAX COLLECTION BUREAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

This section of the Capital Tax Collection Bureau's (the "Bureau") annual financial report presents a narrative overview and analysis of the Bureau's financial performance for the year ended December 31, 2008. Please read this discussion and analysis in conjunction with the accompanying financial statements and notes that follow, in order to obtain a thorough understanding of the Bureau's financial condition at December 31, 2008.

Description of Basic Financial Statements

The Bureau presents its basic financial statements using the economic resources measurement focus and full accrual basis of accounting. The Bureau's basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. The basic financial statements also include notes that explain the information recorded in the basic financial statements.

Financial Highlights

- 2008 marked the fourth straight year that Bureau operations resulted in net income after 2004 and 2003 both resulted in net losses. In 2008, the Bureau had net income of \$295,561 as compared to net income of \$1,283,089 for 2007. Normally Interest income is the main contributor to operating revenues however due to the low interest rate environment for investments, the Bureau saw a decrease in interest income from \$1,918,312 in 2007 to \$972,973 in 2008. The other significant portion of operating revenues is the delinquent interest, penalties and fines that were generated from our on-going delinquent collection process. In 2008, the revenues generated from the delinquent collections were \$1,288,165 as compared to \$1,328,627 for 2007. Interest income and delinquent interest, penalties and fines comprise approximately 63% of the total operating revenues.

CAPITAL TAX COLLECTION BUREAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Condensed Financial Information:

Statement of Net Assets:

The following condensed financial information provides an overview of the Bureau's financial position at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Assets:		
Cash and cash equivalents	\$26,676,852	\$28,755,313
Capital assets, net	598,752	101,742
Prepaid maintenance and software contracts	207,323	-
Other assets	<u>579,076</u>	<u>447,246</u>
Total assets	<u>28,062,003</u>	<u>29,304,301</u>
Liabilities:		
Tax collections in process of distribution	24,283,183	25,265,525
Capital lease obligation	719,619	-
Other Liabilities	<u>321,119</u>	<u>596,255</u>
Total liabilities	<u>25,323,921</u>	<u>25,861,780</u>
Net assets:		
Invested in capital assets	82,403	101,742
Unrestricted:		
Designated for capital assets	680,332	800,532
Other	<u>1,975,347</u>	<u>2,540,247</u>
	<u>\$ 2,738,082</u>	<u>\$ 3,442,521</u>

(a) Net assets, the difference between assets and liabilities, decreased by \$704,439, which was directly attributable to our net income for 2008, less our \$1,000,000 equity distribution paid in 2008.

(b) Net capital assets, which are made up of property, plant and equipment, decreased by \$19,339 during the year ended December 31, 2008; due to annual depreciation exceeding new assets acquired less capital debt.

(c) "Cash & Cash Equivalents" decreased by \$2,078,461 in 2008 over 2007. This decrease was largely attributable to the \$1,000,000 equity distribution paid to members in August of 2008 and the reduction in net income of \$295,561 earned in 2008 as compared to net income of \$1,283,099 for 2007.

**CAPITAL TAX COLLECTION BUREAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Summary of Operations and Changes in Net Assets:

The table below summarizes sources of net assets and the change in net assets for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Operating revenues:		
EIT Commissions	\$1,181,058	\$1,035,857
Administrative fees	147,666	142,597
Interest, penalties, costs & fines	<u>1,288,165</u>	<u>1,328,627</u>
Total operating revenues	<u>2,616,889</u>	<u>2,508,081</u>
Operating expenses:		
Employee wages, benefits & costs	2,137,833	2,075,470
Postage & Forms	564,989	518,227
Professional services	186,741	205,111
Occupancy costs	138,020	131,811
General & other costs	219,177	170,793
Depreciation	<u>47,606</u>	<u>42,035</u>
Total operating expenses	<u>3,294,366</u>	<u>3,143,447</u>
Operating loss	<u>(677,477)</u>	<u>(635,366)</u>
Nonoperating revenues:		
Interest income	972,973	1,918,312
Miscellaneous revenue	<u>65</u>	<u>143</u>
Total nonoperating income	<u>973,038</u>	<u>1,918,455</u>
Change in net assets	<u>295,561</u>	<u>1,283,089</u>
Total net assets - beginning	3,442,521	2,852,213
Equity distribution	<u>(1,000,000)</u>	<u>(692,781)</u>
Total net assets - ending	<u>\$2,738,082</u>	<u>\$3,442,521</u>

CAPITAL TAX COLLECTION BUREAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

- (a) "Interest, penalties costs & fines" revenue decreased by \$40,462 in 2008 compared to 2007. The Bureau is continuing to file criminal complaints however due to staffing constraints the amount of complaints filed in 2008 was less than 2007.
- (b) Operating expenses are dominated by employee wage and benefit costs, but also include postage, material and supplies, professional services, occupancy costs, depreciation of other capital assets. Employee wages, benefits and cost increased by \$62,363 in 2008 over 2007. This increase was from normal salary increases and payment of accrued sick and vacation that was paid to several long-term individuals when they resigned.
- (c) Nonoperating revenues mainly consist of interest earnings on short-term investments of tax collections in process of distribution. Interest income decreased by \$945,339 or 49.28% for 2008 compared to 2007. This significant decrease was due to the fall in interest rates during the year.

Capital Assets and Debt Administration:

Capital Assets:

The Bureau's investment in capital assets at December 31, 2008, net of accumulated depreciation, was \$598,752. Capital assets consist primarily of land, buildings and improvements, and equipment and furniture.

The following is a summary of capital assets at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,000	\$ 2,000
Buildings & improvements	246,191	234,171
Equipment & furniture	1,248,901	716,305
Total capital assets	1,497,092	952,476
Less accumulated depreciation	<u>(898,340)</u>	<u>(850,734)</u>
Net capital assets	<u>\$ 598,752</u>	<u>\$101,742</u>

Long-Term Debt:

The Bureau entered into a five-year capital lease agreement, during 2008. The total obligation for lease payments at December 31, 2008 is \$814,146, with \$94,527 representing interest.

CAPITAL TAX COLLECTION BUREAU
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Economic Factors and Next Year's Budgets & Rates

The Bureau's final 2009 budget does not provide for any equity distribution for the year and is showing expenses exceeding revenue by \$681,275. The budgeted net loss will be funded by excess reserves.

Contacting the Bureau's Financial Management:

This financial report is designed to provide our citizens, members and other interested parties with a general overview of the Bureau's finances and to demonstrate the Bureau's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact:

JOSHUA VECCHIO, EXECUTIVE DIRECTOR
CAPITAL TAX COLLECTION BUREAU
2301 N 3RD STREET
HARRISBURG PA 17110-1893

CAPITAL TAX COLLECTION BUREAU

STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	2007
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,676,852	\$ 28,755,313
Accrued commissions receivable	123,098	133,416
Administrative fees receivable	42,025	102,217
Other receivables	404,566	195,759
Prepaid expenses	45,864	15,854
Total current assets	<u>27,292,405</u>	<u>29,202,559</u>
CAPITAL ASSETS:		
Land	2,000	2,000
Building	246,191	234,171
Equipment and furniture	<u>1,248,901</u>	<u>716,355</u>
Total	1,497,032	952,476
Accumulated depreciation	<u>(898,340)</u>	<u>(850,734)</u>
Capital assets, net	598,752	101,742
PREPAID EXPENSES	<u>170,846</u>	<u>-</u>
Total non-current assets	<u>769,598</u>	<u>101,742</u>
TOTAL	<u>\$ 28,062,003</u>	<u>\$ 29,304,301</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 36,660	\$ 46,846
Accrued salaries and taxes	114,858	113,299
Accrued compensated absences	160,532	206,330
Accrued commissions payable	-	229,780
Current portion of capital lease obligation	121,185	-
Collections in process of distribution:		
Earned income taxes (EIT)	24,000,381	25,150,745
Delinquent occupational assessment and occupational privilege taxes	<u>282,802</u>	<u>114,780</u>
Total current liabilities	24,725,487	25,861,780
CAPITAL LEASE OBLIGATION	<u>598,434</u>	<u>-</u>
Total liabilities	<u>25,323,921</u>	<u>25,861,780</u>
NET ASSETS:		
Investment in capital assets	82,403	101,742
Unrestricted	<u>2,555,679</u>	<u>3,340,779</u>
Total net assets	<u>2,738,082</u>	<u>3,442,521</u>
TOTAL	<u>\$ 28,062,003</u>	<u>\$ 29,304,301</u>

See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Interest income	\$ 972,973	\$ 1,918,312
Commissions	1,181,058	1,036,857
Delinquent interest, penalties, and fines	1,288,165	1,328,627
Administrative fees	147,666	142,597
Miscellaneous	65	143
Total operating revenues	<u>3,589,927</u>	<u>4,426,536</u>
OPERATING EXPENSES:		
Salaries and benefits	2,137,833	2,075,470
Postage	536,652	470,801
Professional	186,741	205,111
Occupancy costs	106,068	100,360
Materials and supplies	75,659	58,929
Repairs and maintenance	64,361	51,458
Depreciation	47,606	42,035
Telephone	31,952	31,451
Printing	28,337	47,426
Miscellaneous	23,331	21,981
Contracted services	19,896	7,047
Office equipment rental	13,086	12,015
Travel	9,282	8,466
Insurance and bonds	7,555	8,357
Interest expense	3,666	-
Advertising	2,341	2,540
Total operating expenses	<u>3,294,366</u>	<u>3,143,447</u>
INCREASE IN NET ASSETS	295,561	1,283,089
NET ASSETS, BEGINNING	3,442,521	2,852,213
EQUITY DISTRIBUTION	<u>(1,000,000)</u>	<u>(692,781)</u>
NET ASSETS, ENDING	<u>\$ 2,738,082</u>	<u>\$ 3,442,521</u>

See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Cash received from:		
Members, nonmembers, and contractual	\$ 134,955,903	\$ 131,912,636
Commissions	1,191,376	1,255,932
Administrative fees	207,858	113,763
Interest income	972,973	1,918,312
Interest, penalties, and interest on delinquencies	1,288,165	1,328,827
Miscellaneous	65	143
Cash payments for:		
Vendors	(1,163,044)	(1,033,733)
Salaries and wages	(2,175,012)	(2,050,913)
Interest	(3,656)	-
EIT distributions on behalf of:		
Members and contractual	(93,393,082)	(91,086,300)
Nonmembers	(38,011,187)	(36,450,955)
Other than EIT distributions	(4,912,410)	(5,992,644)
Net cash used in operating activities	(1,040,051)	(85,131)
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:		
Distribution of equity to members	(1,000,000)	(692,781)
Purchase of capital assets	(28,267)	(37,463)
Capital lease payments	(10,133)	-
Net cash used in capital and related financing activities	(1,038,400)	(730,244)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,078,461)	(815,375)
CASH AND CASH EQUIVALENTS, BEGINNING	28,755,313	29,570,688
CASH AND CASH EQUIVALENTS, ENDING	\$ 26,676,852	\$ 28,755,313
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 295,561	\$ 1,283,039
Adjustments to reconcile increase in net assets to net cash used in operations:		
Depreciation	47,606	42,036
Change in assets and liabilities		
Accrued commissions receivable	10,318	(10,705)
Administrative fees receivable	60,192	(28,834)
Other receivables	(208,807)	-
Prepaid expenses	12,547	(4,957)
Accounts payable	(10,177)	34,244
Accrued salaries and wages	1,559	12,356
Accrued compensated absences	(36,738)	12,161
Accrued commissions payable	(229,780)	229,780
Collections in process of distribution	(382,342)	(1,654,361)
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,040,061)	\$ (85,131)
NONCASH FINANCING ACTIVITIES:		
Capital lease obligation	\$ 729,752	
Capital asset	\$ 516,349	
Prepaid expenses	\$ 213,403	

See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Capital Tax Collection Bureau (the "Bureau") is incorporated in the Commonwealth of Pennsylvania. The Bureau is a joint venture with one contractual and 65 other members who have an equity interest in the Bureau at December 31, 2008. Eight additional members who had an equity interest withdrew from the Bureau effective December 31, 2008. Equity distributions are made to members as available generally based on the prior year's earned income tax distribution and taxables. The members consist of local municipalities and school districts; as such, the Bureau is considered a governmental organization.

The Bureau functions as a central collection agency for the collection of earned income taxes for various municipalities and school districts in the central Pennsylvania region. In addition to the earned income tax collection services, the Bureau contracts with certain municipalities for the collection of local enabling taxes such as per capita, residence, emergency and municipal services, and occupation assessment taxes, as well as delinquent taxes.

Because the Bureau operates as an agent for the collection of taxes for various municipalities, no amounts are recorded on the statement of net assets for taxes that may be due, but that have not been reported by taxpayers or other area collectors, nor have taxes been recorded that have been assessed by the taxing authority, but not yet paid by taxpayers.

REPORTING ENTITY

The reporting entity has been defined in accordance with the criteria established in Statement 14, as amended by Statement 39, issued by the Governmental Accounting Standards Board ("GASB"). The specific criteria used in determining whether the Bureau is considered a component unit of any other organization or whether other organizations should be included in the Bureau's financial reporting entity are financial accountability, fiscal dependency and legal separation.

The Bureau is not a component unit of any other organization nor is any other organization a component unit of the Bureau.

BASIS OF ACCOUNTING

The Bureau uses the accrual basis of accounting. As such, revenues are recognized when earned.

The Bureau follows all applicable Governmental Accounting Standards Board (GASB) pronouncements and only those applicable Financial Accounting Standards Board (FASB) or its predecessors' pronouncements issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements.

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the Bureau considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of December 31, 2008 and 2007 consist of various reimbursements receivable and prepayments for postage, insurance, equipment maintenance, and software contracts.

CAPITAL ASSETS

Land, building, furniture, and equipment have been capitalized at cost. Depreciation is computed using the straight-line method over the useful lives for building, furniture, and equipment. The cost of maintenance and repairs is charged to operations as incurred.

COMPENSATED ABSENCES

Vacation days are usable following the calendar year in which they were earned. Upon termination, employees will be paid for unused vacation that has been earned through the last day of work. Eligible employees accrue sick leave benefits at the rate of 10 days per year. Unused sick leave benefits will be allowed to accumulate indefinitely and upon termination, a portion of unused sick leave benefits may be payable.

COLLECTIONS IN PROCESS OF DISTRIBUTION

Collections in process of distribution primarily consist of current year earned income tax collections awaiting settlement, prior year income tax collections, interest and penalties assessed on employers' returns, amounts due to other collectors and municipalities and delinquent tax collections awaiting distribution. Distribution of current tax collections is subject to future adjustments pending completion of compliance and redistribution procedures currently in process by the Bureau. Such adjustments result principally from incorrect employee residence data furnished to the Bureau by certain employers. The amount of such adjustments, as well as the political subdivisions that will be affected, is not presently known.

INCOME TAXES

The Bureau is exempt from income taxes under Section 115 of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRINCIPLE

Effective January 1, 2008, the Bureau adopted Governmental Accounting Standard Board ("GASB") Statement No. 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*. GASB No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The statement enhances information disclosed in notes to financial statements by pension plans and by employers that provide pension benefits. The statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

2. DEPOSITS

The Bureau invests only in instruments that are allowable under the Pennsylvania School Code, Third Class City Code, the Borough Code, the First Class Township Code, and the Second Class Township Code. Permissible investments include U.S. treasury bills, obligations of the U.S. government, deposits in savings accounts or time deposits with financial institutions subject to Federal Deposit Insurance Corporation coverage or Act 72 collateralization requirements, and investments in mutual funds that are restricted to investing in the foregoing instruments.

The Bureau is subject to custodial credit risk which is defined as the risk that the Bureau will not be able to recover deposits if the depository institution fails or will not be able to recover collateral securities that are in the possession of an outside party. The Bureau's policy for custodial credit risk is to accept the collateral guidelines as defined in Act 72. At December 31, 2008 and 2007, the Bureau's bank deposits were \$35,432,257 and \$33,983,062, respectively. The difference between the bank and book balance consists mainly of outstanding checks. The total bank balances insured by the Federal Deposit Insurance Corporation were \$250,000 at December 31, 2008. The remaining bank balances were secured by securities pledged by the financial institutions for such funds but not in the Bureau's name under Act 72 of 1971.

3. CAPITAL ASSETS, NET

	BALANCE DECEMBER 31, 2007	ADDITIONS	BALANCE DECEMBER 31, 2008
Land	\$ 2,000		\$ 2,000
Building	234,171	\$ 12,020	246,191
Equipment and furniture	716,305	16,247	732,552
Equipment under capital lease	-	516,349	516,349
	952,476	544,616	1,497,092
Accumulated depreciation	(850,734)	(47,606)	(898,340)
Capital assets, net	<u>\$101,742</u>	<u>\$497,010</u>	<u>\$ 598,752</u>

CAPITAL TAX COLLECTION BUREAU
NOTES TO FINANCIAL STATEMENTS

	BALANCE DECEMBER 31, 2006	ADDITIONS	BALANCE DECEMBER 31, 2007
Land	\$ 2,000	\$ -	\$ 2,000
Building	228,210	5,961	234,171
Equipment and furniture	<u>684,803</u>	<u>31,502</u>	<u>716,305</u>
	915,013	37,463	952,476
Accumulated depreciation	<u>(808,698)</u>	<u>(42,036)</u>	<u>(850,734)</u>
Capital assets, net	<u>\$106,315</u>	<u>\$ (4,573)</u>	<u>\$101,742</u>

4. PENSION PLAN

PLAN DESCRIPTION

The Bureau administers a single-employer defined benefit pension plan that covers all of its full-time employees. The bylaws of the Bureau give the Bureau's Executive Committee the authority to establish and amend employee remuneration, which would include pension benefits. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Retirement benefits are based on years of service and the employee's average monthly compensation during the three years before retirement. The plan does not issue a stand-alone financial report.

The plan had the following membership as of January 1, 2008, the date of the plan's latest actuarial valuation.

Retirees and beneficiaries receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	2
Active members	<u>41</u>
Total	<u>47</u>

FUNDING POLICY

The contribution requirements of plan members and the Bureau are established and may be amended by the Bureau's Executive Committee. Plan members are required to contribute 5.25% of their compensation and their contributions are credited with 4% interest. The Bureau is required to contribute the balance of the plan costs.

The Bureau's annual required contributions (ARC) in 2008, 2007, and 2006 were \$95,668, \$98,687, and \$97,256, respectively. The Bureau contributed those amounts in each respective year. There was no net pension obligation (NPO).

CAPITAL TAX COLLECTION BUREAU
NOTES TO FINANCIAL STATEMENTS

The following is information about the methods and assumptions used to determine the ARC for 2008 and 2007:

Actuarial cost method	Aggregate actuarial cost method
Asset valuation method	Market value as determined by the trustee
Actuarial assumptions:	
Investment rate of return	6.50%
Projected salary increases	4.00%

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1/1/2008	\$3,726,192	\$3,878,641	\$152,449	96.1%	\$1,223,384	12.5%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER

<u>Year</u>	<u>Annual Recommended Contribution</u>	<u>Contributions From Employer</u>	<u>Percentage Contributed</u>
1998	\$ 8,534	\$ 8,534	100.0%
1999	10,011	10,011	100.0%
2000	1,189	1,901	100.0%+
2001	17,463	17,463	100.0%
2002	50,045	50,045	100.0%
2003	84,344	84,344	100.0%
2004	63,767	63,767	100.0%
2005	73,811	73,811	100.0%
2006	97,256	97,256	100.0%
2007	98,687	98,687	100.0%

5. COMPENSATED ABSENCES

The change in the Bureau's compensated absences in 2008 is summarized as follows:

Balance, January 1, 2008	\$206,330
Increases	150,004
Decreases	<u>(186,742)</u>
Balance, December 31, 2008	<u>\$169,592</u>

6. OBLIGATIONS UNDER CAPITAL LEASE

The Bureau leases certain equipment and software under the terms of a capital lease agreement. This obligation is collateralized by the related equipment and software. Maintenance services were also included as a component of the lease.

The future annual minimum lease payments required under the capital leases, together with the present value of the net minimum lease payments at December 31, 2008, are as follows:

YEARS ENDING DECEMBER 31				
	2009			\$151,790
	2010			165,589
	2011			165,589
	2012			165,589
	2013			<u>165,589</u>
	Total minimum lease payments			814,146
	Less amount representing interest			<u>94,527</u>
				<u>\$719,619</u>
	BALANCE JANUARY 1, 2008	ADDITIONS	REDUCTIONS	BALANCE DECEMBER 31, 2008
Capital lease	\$ -	<u>\$729,752</u>	<u>\$(10,133)</u>	<u>\$719,619</u>

7. OPERATING LEASES

The Bureau leases office facilities in Carlisle and Harrisburg, Pennsylvania. The leases require current monthly rental payments of \$1,802 and \$3,916 and expire on October 31, 2012 and January 31, 2014, respectively. The minimum lease payments are as follows:

<u>YEAR ENDING DECEMBER 31</u>	<u>CARLISLE</u>	<u>HARRISBURG</u>
2009	\$23,184	\$ 46,992
2010	23,184	46,992
2011	24,744	46,992
2012	20,620	46,992
2013-2014	-	50,908
Total	<u>\$91,732</u>	<u>\$238,876</u>

8. DESIGNATIONS OF NET ASSETS

At December 31, 2008 and 2007, the Bureau's Board of Directors has designated the use of unrestricted net assets as follows:

	<u>2008</u>	<u>2007</u>
Investment in capital assets	\$ 82,403	\$ 101,742
Unrestricted:		
Designated for capital replacements	680,332	800,532
Undesignated	<u>1,975,347</u>	<u>2,540,247</u>
Net assets	<u>\$2,738,082</u>	<u>\$3,442,521</u>

9. MAJOR MEMBERS

For 2008 and 2007, the Bureau had two members that paid commissions of approximately 30% or more of total earned income tax commissions. These members were Lower Paxton Township and Central Dauphin School District.

As of December 31, 2008, these members withdrew from the Bureau.

10. RISK MANAGEMENT

Since 2006, it has been the policy of the Bureau not to purchase commercial health, dental, and vision insurance for the risks of losses to which it is exposed. Instead, the Bureau management believes it is more economical to manage its risks internally, and participates in a risk sharing arrangement as a member of the Pennsylvania Municipal Health Insurance Cooperative ("the Cooperative"). Under the terms of the cooperative agreement, each participant pledges a percentage of premiums paid in to the cooperative to be available to cover losses of other members in excess of their stop loss amounts. These are referred to as "Cross Recovery Funds". In the event that the funds pledged by all members should exceed the cooperative's Cross Recovery Funds, the Cooperative has purchased stop loss insurance from commercial insurers that will reimburse members for 100% of all medical claims in excess of that member's stop loss limit. The Bureau's stop loss limit is \$25,000 per year per participant. During the year ended December 31, 2008, the Bureau received no stop loss reimbursements.

The Bureau continues to carry commercial insurance for all other risks of loss, including workers compensation, liability and property and casualty insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CAPITAL TAX COLLECTION BUREAU

SCHEDULE OF COLLECTIONS AND DISTRIBUTIONS - MEMBERS
FOR THE YEAR ENDED DECEMBER 31, 2008

MEMBER	TOTAL COLLECTED	COMMISSIONS	MISC. ADJ.	EQUITY	DISTRIBUTION
Big Spring School District	\$ 4,504,340	\$ (42,898)	\$ -	\$ 45,441	\$ 4,506,882
Blink Borough	18,440	(371)	-	288	18,357
Bloomfield Borough	87,910	(1,778)	-	1,198	87,330
Buffalo Township	121,019	(2,484)	-	1,549	120,084
Carlisle Area School District	7,510,253	(74,991)	-	74,354	7,509,616
Carlisle Borough	1,398,657	(28,097)	-	23,082	1,393,641
Carroll Township	539,420	(11,004)	-	7,251	536,657
Central Dauphin School District	32,115,916	(232,891)	-	274,513	32,157,538
Centre Township	219,018	(4,488)	-	3,150	217,689
City of Harrisburg	3,836,877	(82,588)	-	57,042	3,814,331
Cooke Township	21,419	(434)	-	284	21,269
Dauphin Borough	79,513	(1,609)	-	1,092	78,996
Dickinson Township	697,799	(14,176)	-	8,701	692,325
Duncannon Borough	125,024	(2,552)	-	1,803	124,272
Greenwood School District	1,266,733	(11,587)	-	12,012	1,268,158
Greenwood Township (Juniata County)	50,600	(1,034)	-	623	50,089
Greenwood Township (Perry County)	108,295	(2,199)	-	1,348	107,445
Harrisburg School District	3,579,694	(76,776)	-	65,421	3,558,339
Hightsprings Borough	237,330	(5,124)	-	3,243	235,453
Hopewell Township	214,316	(4,066)	(15,025)	2,540	198,765
Howe Township	52,481	(1,067)	-	633	52,047
Jackson Township	38,185	(764)	-	627	37,918
Juniata Township	145,262	(2,958)	-	1,877	144,181
Landisburg Borough	17,770	(361)	-	237	17,647
Liverpool Borough	80,813	(1,654)	-	1,133	80,292
Liverpool Township	109,768	(2,246)	-	1,440	108,962
Lower Frankford Township	168,799	(3,433)	-	2,394	167,756
Lower Mifflin Township	154,108	(3,119)	-	2,277	153,266
Lower Paxton Township	6,441,121	(130,744)	-	77,311	6,387,688
Marysville Borough	248,559	(5,042)	-	3,418	246,945
Middle Paxton Township	661,037	(13,421)	-	7,926	655,542
Miller Township	94,380	(1,935)	-	1,288	93,732
Millersburg Borough	69,741	(1,433)	-	923	69,231
Mt. Holly Springs Borough	186,540	(3,779)	-	2,729	185,490
New Buffalo Borough	11,128	(224)	-	147	11,050
Newburg Borough	26,643	(548)	(232)	443	26,306
Newport Borough	106,269	(2,146)	-	1,706	104,829
Newport School District	1,445,239	(15,127)	-	14,891	1,445,003
Newville Borough	110,237	(2,228)	-	1,678	108,687
North East Madison Township	65,951	(1,340)	-	893	65,473
North Middleton Township	1,100,582	(22,419)	-	13,891	1,092,055
North Newton Township	213,199	(4,344)	-	2,923	211,778
Oliver Township	148,357	(3,028)	-	2,241	147,571
Orndown Borough	16,634	(317)	-	201	16,518
Pastang Borough	175,390	(3,498)	(2,109)	2,270	172,055
Pentbrook Borough	252,725	(5,104)	-	3,801	251,421
Penn Township (Cumberland County)	302,746	(6,191)	-	4,135	300,690
Penn Township (Perry County)	295,672	(6,994)	-	3,911	293,589
Reed Township	24,197	(497)	-	323	24,023
Rye Township	234,553	(5,992)	-	3,602	232,162
Saville Township	214,822	(4,359)	-	2,880	213,343
Shippensburg Area School District	3,756,176	(45,618)	-	40,867	3,751,425
Shippensburg Borough	466,642	(9,011)	(16,211)	6,478	437,898
Shippensburg Township	136,895	(2,907)	-	1,898	135,886
South Middleton School District	3,468,444	(54,798)	-	33,375	3,467,021
South Middleton Township	66,887	(1,397)	-	-	65,490
South Newton Township	123,613	(2,526)	-	1,701	122,788

CAPITAL TAX COLLECTION BUREAU
SCHEDULE OF COLLECTIONS AND DISTRIBUTIONS - MEMBERS
FOR THE YEAR ENDED DECEMBER 31, 2008

MEMBER	TOTAL COLLECTED	COMMISSIONS	MISC. ADJ.	EQUITY	DISTRIBUTION
South Wes. Madison Township	\$ 70,167	\$ (1,421)	\$ -	\$ 996	\$ 69,732
Southampton Township (Cumberland County)	566,788	(11,628)	-	7,720	562,880
Southampton Township (Franklin County)	765,899	(14,424)	-	9,798	701,242
Spring Township	236,784	(4,800)	-	2,991	234,975
Steellon Borough	446,723	(9,709)	-	6,435	443,419
Steelon-Highspire School District	676,765	(14,687)	-	8,544	671,622
Susquenita School District	3,865,216	(32,445)	-	34,855	3,867,626
Swatara Township	2,236,275	(45,373)	-	29,871	2,220,774
Toboyne Township	30,566	(616)	-	375	30,326
Tuscarora Township	96,330	(1,965)	-	1,343	95,709
Tyrone Township	161,411	(3,272)	-	2,173	160,312
Upper Frankford Township	189,660	(3,863)	-	2,675	188,472
Upper Mifflin Township	122,633	(2,484)	-	1,735	121,884
Watts Township	126,913	(2,590)	-	1,654	125,977
West Hanover Township	1,126,650	(22,727)	(7,092)	13,101	1,112,933
West Pennsboro Township	586,796	(11,899)	-	7,667	582,664
West Perry School District	3,891,287	(36,196)	-	38,518	3,863,609
Wheatfield Township	379,358	(7,605)	-	4,669	376,362
	<u>\$ 93,614,866</u>	<u>\$ 1,181,119</u>	<u>\$ (40,669)</u>	<u>\$ 1,000,000</u>	<u>\$ 93,993,082</u>

See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

SCHEDULE OF COLLECTIONS AND DISTRIBUTIONS - MEMBERS FOR THE YEAR ENDED DECEMBER 31, 2007

MEMBER	TOTAL COLLECTED	COMMISSIONS	MISC ADJ	EQUITY	DISTRIBUTION
Big Spring School District	\$ 4,566,603	\$ (43,691)	\$ 10,141	\$ 60,217	\$ 4,615,800
Blain Borough	18,621	(378)	-	337	18,760
Bloomfield Borough	88,109	(1,781)	-	1,616	87,944
Buttsville Township	114,060	(2,323)	-	2,020	113,757
Carlisle Area School District	7,491,317	(73,679)	18,161	1,01,689	7,537,797
Carlisle Borough	1,760,577	(36,185)	-	27,571	1,771,969
Carroll Township	520,951	(10,673)	-	8,554	525,842
Central Dauphin School District	30,941,142	(224,082)	62,675	-	30,769,736
Centre Township	232,946	(4,722)	-	4,169	232,333
City of Harrisburg	3,603,873	(76,963)	-	74,790	3,601,700
Cooke Township	24,542	(494)	-	324	24,372
Dauphin Borough	80,131	(1,621)	-	-	78,510
Discipleson Township	719,647	(14,543)	-	11,058	716,162
Duncannon Borough	116,288	(2,357)	-	2,416	116,347
Greenwood School District	1,238,159	(12,677)	4,291	16,073	1,246,829
Greenwood Township (Juniata County)	41,416	(842)	-	801	41,375
Greenwood Township (Perry County)	97,230	(1,965)	-	1,806	97,071
Harrisburg School District	3,364,127	(71,481)	-	72,691	3,365,327
Hedgesville Borough	223,242	(4,864)	-	4,475	222,813
Horsewell Township	208,545	(4,235)	-	-	204,310
Horse Township	56,334	(1,022)	-	866	56,168
Jackson Township	39,612	(820)	-	704	39,496
Juniata Township	138,554	(2,806)	-	2,504	138,619
Laridaburg Borough	15,633	(315)	-	364	15,672
Liverpool Borough	74,158	(1,502)	-	1,450	74,106
Liverpool Township	103,327	(2,101)	-	1,954	103,080
Lower Frankford Township	171,181	(3,466)	-	3,093	170,808
Lower Merion Township	153,312	(3,114)	-	2,984	153,183
Lower Paxton Township	6,319,643	(128,618)	-	-	6,191,022
Marysville Borough	244,353	(4,932)	-	4,313	243,744
Middle Paxton Township	636,341	(12,867)	-	-	623,474
Mifflin Township	87,644	(1,759)	-	1,642	87,487
Millersburg Borough	60,835	(1,351)	-	1,240	60,024
Nat. Holly Springs Borough	185,074	(3,732)	-	3,431	184,773
New Butler Borough	8,597	(173)	-	225	8,649
Newburg Borough	32,455	(659)	-	-	31,795
Newport Borough	105,446	(2,134)	-	2,249	105,561
Newport School District	1,466,224	(16,866)	6,156	20,124	1,485,666
Nimrod Borough	106,968	(2,153)	-	2,694	106,909
North East Watscon Township	61,342	(1,346)	-	1,214	61,306
North Middleton Township	1,014,611	(22,564)	-	18,362	1,012,409
North Newton Township	211,703	(4,281)	-	3,672	211,094
Oliver Township	143,414	(2,863)	-	2,834	146,285
Ortstown Borough	13,245	(268)	-	-	12,977
Parkburg Borough	167,354	(3,397)	-	-	163,957
Perrytown Borough	239,140	(4,831)	-	-	234,308
Perry Township (Cumberland County)	306,786	(6,222)	-	5,099	305,663
Perry Township (Perry County)	268,699	(5,448)	-	5,248	258,499
Reed Township	22,538	(460)	-	436	22,513
Rye Township	206,312	(5,875)	-	4,785	205,223
Saville Township	205,829	(4,162)	-	3,775	205,442
Shippensburg Area School District	3,726,903	(44,997)	10,309	-	3,692,285
Shippensburg Borough	411,697	(8,467)	-	-	403,230
Shippensburg Township	126,848	(2,700)	-	-	124,148
South Middleton School District	3,489,210	(34,513)	7,657	42,034	3,505,048
South Newton Township	66,477	(7,481)	-	-	64,983
South Union Township	126,546	(2,594)	-	2,194	126,156

CAPITAL TAX COLLECTION BUREAU

**SCHEDULE OF COLLECTIONS AND DISTRIBUTIONS - MEMBERS
FOR THE YEAR ENDED DECEMBER 31, 2007**

MEMBER	TOTAL COLLECTED	COMMISSIONS	MISC. ADJ.	EQUITY	DISTRIBUTION
South West Madison Township	\$ 67,853	\$ (1,369)	\$ -	\$ 1,351	\$ 67,842
Southampton Township (Cumberland County)	561,235	(11,474)	-	-	549,761
Southampton Township (Franklin County)	704,502	(14,495)	-	-	690,007
Spring Township	231,553	(4,690)	-	3,988	230,851
Steelton Borough	402,515	(8,671)	-	8,781	403,025
Steelton-Highspire School District	610,864	(13,220)	-	13,347	610,991
Susquehanna School District	2,659,243	(30,596)	7,784	50,409	3,696,840
Saxton Township	2,136,024	(43,258)	-	-	2,092,766
Toboyne Township	29,486	(589)	-	483	29,380
Tuscarora Township	96,235	(1,951)	-	1,696	96,010
Tyrone Township	158,082	(3,204)	-	2,876	157,754
Upper Frankford Township	185,452	(3,753)	-	3,296	184,995
Upper Merion Township	118,895	(2,400)	-	2,355	118,850
Watts Township	121,317	(2,451)	-	2,136	121,002
West Hanover Township	1,034,100	(20,950)	-	-	1,013,120
West Pennsboro Township	599,300	(12,114)	-	9,627	596,813
West Perry School District	3,955,503	(35,702)	9,131	55,082	3,963,934
Wheatfield Township	351,868	(7,121)	-	6,238	350,985
	<u>\$ 91,418,110</u>	<u>\$ (1,151,895)</u>	<u>\$ 125,305</u>	<u>\$ 692,791</u>	<u>\$ 91,085,300</u>

See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

NONMEMBER EIT DISTRIBUTION SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2008

Nonmember political subdivisions and other area collectors:

Central Tax Bureau	\$ 1,370,454
Chambersburg Area Wage Tax Office	1,193,627
Derry Township Earned Income Tax Office	1,286,151
H. A. Berkheimer Associates	2,075,254
Juniata County Tax Office	612,617
Lancaster County Earned Income Tax Office	8,196,636
Lebanon County Earned Income Tax Office	1,877,022
Other nonmember political subdivisions and collectors	3,204,334
Upper Dauphin Tax Office	1,214,557
West Shore Tax Bureau	14,670,547
York Adams Tax Bureau	<u>2,309,888</u>

Earned income tax distributed	<u>\$38,011,187</u>
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See Notes to Financial Statements

CAPITAL TAX COLLECTION BUREAU

NONMEMBER EIT DISTRIBUTION SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2007

Nonmember political subdivisions and other area collectors:

Central Tax Bureau	\$ 1,109,694
Chambersburg Area Wage Tax Office	1,126,199
Derry Township Earned Income Tax Office	1,229,036
H. A. Berkheimer Associates	1,924,610
Juniata County Tax Office	584,125
Lancaster County Earned Income Tax Office	7,975,221
Lebanon County Earned Income Tax Office	1,798,095
Other nonmember political subdivisions and collectors	3,442,301
Upper Dauphin Tax Office	1,164,222
West Shore Tax Bureau	14,005,948
York Adams Tax Bureau	<u>2,091,504</u>
Earned income tax distributed	<u>\$36,450,955</u>

See Notes to Financial Statements

About ParenteBeard

ParenteBeard is the Mid Atlantic's leading regional certified public accounting and business advisory firm with more than 1,200 team members serving middle market and small business clients across the region. The 164 partner firm has 25 offices located in Pennsylvania, New Jersey, New York, Maryland, Delaware and Texas. The firm is ranked among the Top 25 firms in the USA and is an independent member of Baker Tilly International.

Fast Facts

Founded: October 1, 2009. Legacy firms Parente Randolph and Beard Miller Company established in 1970 and 1946, respectively.

Headquarters: Philadelphia, PA

Locations: 25 offices in Pennsylvania, New York, New Jersey, Delaware, Maryland and Texas

Total Team Members: Approximately 1,200

Partners: 164

Net Revenues: \$175 million

Fiscal Year End: December 31

Services and Industry Sectors: Please visit our website at ParenteBeard.com

Global Resources: ParenteBeard is an independent member of Baker Tilly International, an affiliate network of 147 accounting and consulting firms in 114 countries with more than 26,000 staff worldwide and aggregate revenue of nearly \$3 billion.

Baker Tilly International, the largest independent network of public accounting firms in the U.S. and the eighth largest network in the world, provides immediate access to professionals with expertise on local laws and business practices so we can effectively serve clients anywhere in the world.

Professional Affiliations: ParenteBeard is a member of the American Institute of Certified Public Accountants (AICPA), and is a proud member of the AICPA's PCPS (Private Companies Practice Section) Firm Practice Center and its three quality centers: Center for Audit Quality, Employee Benefit Plan Audit Quality Center and Governmental Audit Quality Center.

ParenteBeard and the PCAOB: As an independent auditor of public companies, we are required to be and are registered with the Public Company Accounting Oversight Board (PCAOB). We audit approximately 110 Securities and Exchange Commission registrants.

Executive Team

Chairman, Lamar J. Stoltzfus

Board of Directors

Debra Bowes

Frank Brennan

Dominic Caglioti

Robert Ciaruffoli, ex-officio

Gregory Crumling

Henry Guberman

John Nealon

Joe O'Neill

Barry Pelagatti

Timothy Simmons

Lamar Stoltzfus, ex-officio

Jeffrey Vrabel

Chief Executive Officer, Robert Ciaruffoli

Chief Operating Officer, Jeffrey Ferro

Chief Risk Officer, Phil Santarelli

Chief Administrative Officer, Jody Keller

Chief Financial Officer, Robert Radics

ParenteBeard Firm Locations

Headquarters

One Liberty Place
1650 Market Street
Suite 4500
Philadelphia, PA 19103

Phone: 215.972.0701
Fax: 215.563.4925



Regional Centers

Central PA and Maryland

(Baltimore, MD/Hanover, Harrisburg, Lancaster, Mechanicsburg and York, PA)

Greg Crumling

Regional Managing Director
Phone: 717.846.7000
Email: Greg.Crumling@ParenteBeard.com

Philadelphia

(Philadelphia and Malvern, PA/Cherry Hill, NJ/ Wilmington, DE)

Paul Kinmartin

Regional Managing Director
Phone: 215.557.2218
Email: Paul.Kinmartin@ParenteBeard.com

Eastern

(Allentown, Lehigh Valley and Reading, PA)

David Zinkler

Regional Managing Director
Phone: 610.336.8180
Email: David.Zinkler@ParenteBeard.com

Pittsburgh

(Pittsburgh, PA)

Bud Kelly

Regional Managing Director
Phone: 412.231.3590
Email: Bud.Kelly@ParenteBeard.com

New York/New Jersey

(Clark, NJ/New York City)

Walter Brasch

Regional Managing Director
Phone: 732.388.5210
Email: Walter.Brasch@ParenteBeard.com

Upstate NY

(Syracuse, NY)

Wade Becker

Regional Managing Director
Phone: 315.471.2777
Email: Wade.Becker@ParenteBeard.com

Northern PA

(Altoona, Clarks Summit, Coudersport, State College, Wellsboro, Wilkes-Barre and Williamsport, PA)

David Capitano

Regional Managing Director
Phone: 412.697.6406
Email: David.Capitano@ParenteBeard.com

Public Sector



You need an accounting firm that not only is well-versed in the technical reporting requirements of public sector organizations, but also one which approaches your organization from a businessperson's perspective. We serve more than 400 public sector organizations and have the know-how to help our clients achieve their missions and maintain transparent financial accountability to their donors, members, clients, fund sources and other constituencies. We have represented the public sector for many years, including county, city & local governments; private foundations; educational organizations; health and human service organizations; the arts & music; trade and professional associations; Authorities (operating and financing); and environmental organizations.



Government

- Audit, accounting and tax
 - Assistance with the IRS and state authorities
 - Audits of federal awards under OMB-133 (single audits)
 - Financial statement audits, reviews, and compilations
 - GAO Certificate of Achievement program
 - Other required state compliance and yellow book audits
 - Payroll and employment tax assistance
 - Sales tax evaluation
- Consulting
 - American Recovery Act Funds Consulting
 - Budget monitoring and long-range financial planning
 - Budgeting and levy assistance
 - Cash and liquidity management
 - Comprehensive and interim financial reports
 - Internal controls review and recommendations
 - IT security evaluations
 - Operating statement analysis
 - Process and efficiency analysis
 - Section 452 compliance review

Non-Profit

- Audit, accounting and tax
 - Assistance with the IRS and state authorities
 - Audits of federal awards under OMB-133 (single audits)
 - Audits under federal and state gaming regulations
 - Financial statement audits, reviews and compilations
 - Form 990 or 990T preparation
 - Outsourced accounting and bookkeeping services
 - Sales and payroll tax evaluation
 - Unrelated taxable income evaluation
- Consulting
 - Board development and consulting
 - Employee benefit plan consulting and administration
 - Founder succession and other transition management
 - Information security services
 - Internal controls review and recommendations
 - Merger and alliance facilitation
 - Operational and financial systems consulting
 - Organizational and financial assessment
 - Program evaluation and industry scans
 - Strategic and business planning

For more information please contact us at 800.267.9405 or visit ParenteBeard.com



Accountants & Business Advisors

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SAS 70 Services



ParenteBeard is one of the leading regional providers of SAS 70 examinations and internal control audits. Our SAS 70 projects are performed by a team of professionals who are dedicated exclusively to ParenteBeard's SAS 70, Sarbanes-Oxley, Internal Audit, and Internal Control Practice. Our expert knowledge of internal control concepts, coupled with a core audit discipline and SAS 70 examination experience, allows us to provide the breadth of services that clients require. Clients retain ParenteBeard for the unique skills and experience we bring to each SAS 70 engagement.

We currently provide SAS 70 services to a variety of companies who service and process transactions for as many as 1,200 user clients, including service organizations with a multi-state or treaty. ParenteBeard's diverse SAS 70 client base includes service organizations that deliver fully supported processing capabilities and technology environments to their user clients including:

- Disaster recovery and business continuance
- Managed hosting
- Co-location and workspace recovery
- Core application processing
- Tax collection and administration
- Vehicle and equipment leasing
- Remittance processing and lockbox services
- Travel and entertainment expense report management
- Document imaging and data conversion
- Printing and mailing services

Working with our experienced team, you will find that we understand the challenges you face in choosing the right firm for your SAS 70 examination. As part of an independent accounting firm, we understand what your clients' auditors require from your SAS 70 report. As consultants, we understand the need to identify the "right" set of controls to include in your report. Our approach blends our understanding of your needs into a tailored solution.

ParenteBeard's service capabilities are further defined by the following examples of our clients' statistics:

- 30 years' experience running mission critical infrastructures for mid-sized to Fortune 500 companies
- Inventories that aggregate millions of dollars in servers, enterprise storage, tape drives, and networking equipment available for technology recovery
- Designed and built multiple extremely reliable (99.999% uptime) high speed Fiber Optic networks
- Processed and imaged 100 million items
- Processed lockbox remittances in excess of \$10 million
- Administered and settled 300,000 travel and entertainment expense reports for a Fortune 500 pharmaceutical company
- Managed a statewide network of 25 offices to service customers and process transactions

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To the Principals of
Parente Randolph, LLC
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Parente Randolph, LLC (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2008. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Parente Randolph, LLC in effect for the year ended July 31, 2008, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

Cherry Bekaert & Holland, L.L.P.

Lynchburg, Virginia
November 22, 2008

Attachment to the Peer Review Report of Parente Randolph, LLC

Description of the Peer Review Process

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objectives of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Parente Randolph, LLC, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.