

Bear Creek Township

Audit Report

December 31, 2005

Bonita & Rainey
Certified Public Accountants

TABLE OF CONTENTS

Basic Financial Statements

Government Wide Financial Statements

Independent Auditor's Report.....	1
Statement of Net Assets – Modified Cash Basis.....	2
Statement of Activities – Modified Cash Basis.....	3

Fund Financial Statements

Balance Sheet – Modified Cash Basis.....	4
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis.....	5
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – Budget vs. Actual – Modified Cash Basis.....	6
Statement of Fiduciary Net Assets – Fiduciary Funds.....	7
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	8
Notes to Financial Statements.....	9-13

Bonita & Rainey
Certified Public Accountants

*Members of American Institute of Certified Public Accountant
Members of Pennsylvania Institute of Certified Public Accountants*

234 South River Street
Plains, Pa 18705
(570) 824-6276
(570) 822-5811 (Fax)

3 West Olive Street, Suite 205
Scranton, Pa 18508
(570) 343-9867
(570) 343-3001 (Fax)

John A. Bonita, CPA
Thomas P. Rainey, CPA
Kevin P. Noone, CPA
Thomas F. Telesz, CPA

Richard P. Rainey, CPA

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Bear Creek Township
Luzerne County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities of Bear Creek Township, Luzerne County, Pennsylvania, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, Bear Creek Township prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities of Bear Creek Township, Luzerne County, Pennsylvania, as of December 31, 2005, and the respective changes in financial position – modified cash basis thereof for the year ended in conformity with the basis of accounting described in Note 1.

The budgetary comparison information on page 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Bear Creek Township has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not to be a part of, the basic financial statements.

March 3, 2006

Bonita & Rainey

Bear Creek Township
Statement of Net Assets - Modified Cash Basis
As of December 31, 2005

	<u>Governmental Activities</u>			<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Primary Government</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 115,970	\$ 4,228	\$ 206,845	\$ 327,043
Total Assets	\$ 115,970	\$ 4,228	\$ 206,845	\$ 327,043
<u>Liabilities & Net Assets</u>				
<u>Liabilities</u>				
Payroll Taxes Payable	\$ 4,170	\$ -	\$ -	\$ 4,170
Total Liabilities	\$ 4,170	\$ -	\$ -	\$ 4,170
<u>Net Assets</u>				
Unreserved	\$ 111,800	\$ -	\$ -	\$ 111,800
Designated For Specific Fund Purpose	-	4,228	206,845	211,073
Total Net Assets	\$ 111,800	\$ 4,228	\$ 206,845	\$ 322,873
Total Liabilities & Net Assets	\$ 115,970	\$ 4,228	\$ 206,845	\$ 327,043

Bear Creek Township
Statement of Activities - Modified Cash Basis
For The Year Ended December 31, 2005

	Expenditures	Program Revenues			Net (Expense) Revenue & Change in Net Assets
		Charge For Services	Operating Grants	Capital Grants	
Governmental Activities					
General Government	\$ 187,296	\$ 2,200	\$ -	\$ -	\$ (185,096)
Public Safety	82,679	133,178	-	-	50,499
Public Works - Sanitation	4,119	-	-	-	(4,119)
Public Works - Highways & Streets	598,278	-	56,875	-	(541,403)
Culture & Recreation	4,266	-	-	-	(4,266)
Pension, Taxes and Insurance	79,635	-	8,780	-	(70,855)
Total Primary Government	\$ 956,273	\$ 135,378	\$ 65,655	\$ -	\$ (755,240)

General Revenues:

Taxes Levied for General Purposes	\$ 346,522
Grants, Subsidies, Contributions Not Restricted	28,921
License and Permits	28,226
Fines and Forfeits	4,248
Investment Earnings	35,874
Miscellaneous Income	2,154
Total General Revenues	\$ 445,945

Change In Net Assets \$ (309,295)

Net Assets - January 1, 2005 632,168

Net Assets - December 31, 2005 \$ 322,873

Bear Creek Township
Balance Sheet - Modified Cash Basis
As of December 31, 2005

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Gvt. Fund Types</u>
<u>Assets</u>				
Current Assets				
Cash and Cash Equivalents	\$ 115,970	\$ 4,228	\$ 206,845	\$ 327,043
Total Current Assets	<u>\$ 115,970</u>	<u>\$ 4,228</u>	<u>\$ 206,845</u>	<u>\$ 327,043</u>
Total Assets	<u>\$ 115,970</u>	<u>\$ 4,228</u>	<u>\$ 206,845</u>	<u>\$ 327,043</u>
<u>Liabilities and Fund Balance</u>				
Current Liabilities				
Payroll Taxes Payable	\$ 4,170	\$ -	\$ -	\$ 4,170
Total Liabilities	\$ 4,170	\$ -	\$ -	\$ 4,170
Fund Balance				
Unreserved	\$ 111,800	\$ -	\$ -	\$ 111,800
Designated For Specific Fund Purpose	<u>-</u>	<u>4,228</u>	<u>206,845</u>	<u>211,073</u>
Total Fund Balance	<u>\$ 111,800</u>	<u>\$ 4,228</u>	<u>\$ 206,845</u>	<u>\$ 322,873</u>
Total Liabilities and Fund Balance	<u>\$ 115,970</u>	<u>\$ 4,228</u>	<u>\$ 206,845</u>	<u>\$ 327,043</u>

Bear Creek Township
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds - Modified Cash Basis
For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes and assessments	\$ 346,522	\$ -	\$ -	\$ 346,522
Licenses and permits	28,226	-	-	28,226
Fines and forfeits	4,248	-	-	4,248
Interest and Rents	23,875	927	11,072	35,874
Intergovernmental revenues	37,701	56,875	-	94,576
Charges for services	135,378	-	-	135,378
Miscellaneous income	2,154	-	-	2,154
Total Revenues	<u>\$ 578,104</u>	<u>\$ 57,802</u>	<u>\$ 11,072</u>	<u>\$ 646,978</u>
Expenditures				
General government	\$ 187,296	\$ -	\$ -	\$ 187,296
Public safety	82,679	-	-	82,679
Public works - Sanitation	4,119	-	-	4,119
Public works - Highways & Streets	276,539	58,413	263,326	598,278
Culture - Recreation	4,266	-	-	4,266
Taxes, Pension & Insurance	79,635	-	-	79,635
Total Expenditures	<u>\$ 634,534</u>	<u>\$ 58,413</u>	<u>\$ 263,326</u>	<u>\$ 956,273</u>
Net Change In Fund Balance	<u>\$ (56,430)</u>	<u>\$ (611)</u>	<u>\$ (252,254)</u>	<u>\$ (309,295)</u>
Fund balance - January 1, 2005	<u>168,230</u>	<u>4,839</u>	<u>459,099</u>	<u>632,168</u>
Fund balance - December 31, 2005	<u>\$ 111,800</u>	<u>\$ 4,228</u>	<u>\$ 206,845</u>	<u>\$ 322,873</u>

Bear Creek Township
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund - Budget vs Actual - Modified Cash Basis
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues				
Taxes and assessments	\$ 287,500	\$ 287,500	\$ 346,522	\$ 59,022
Licenses and permits	24,000	24,000	28,226	4,226
Fines and forfeits	3,500	3,500	4,248	748
Interest, Rent and Royalties	119,800	119,800	23,875	(95,925)
Intergovernmental revenues	47,385	47,385	37,701	(9,684)
Charges for services	27,750	27,750	135,378	107,628
Miscellaneous income	500	500	2,154	1,654
Total Revenues	\$ 510,435	\$ 510,435	\$ 578,104	\$ 67,669
Expenditures				
General government	\$ 106,392	\$ 106,392	\$ 187,296	\$ (80,904)
Public safety	66,650	66,650	82,679	(16,029)
Public works - Sanitation	1,000	1,000	4,119	(3,119)
Public works - Highways & Streets	159,600	159,600	276,539	(116,939)
Culture - recreation	9,300	9,300	4,266	5,034
Pension, Taxes and Insurance	102,200	102,200	79,635	22,565
Total Expenditures	\$ 445,142	\$ 445,142	\$ 634,534	\$ (189,392)
Excess (Deficiency) of Revenues over Expenditures	\$ 65,293	\$ 65,293	\$ (56,430)	\$ (121,723)
Fund balance - January 1, 2005			\$ 168,230	
Fund balance - December 31, 2005			\$ 111,800	

Bear Creek Township
Statement of Fiduciary Net Assets - Fiduciary Funds
As of December 31, 2005

	<u>Non Uniform Pension</u>
<u>Assets</u>	
Current Assets	
Investments	\$ <u>66,456</u>
Total Assets	\$ <u>66,456</u>
<u>Liabilities and Net Assets</u>	
Net Assets	
Held in trust for pension benefits	\$ <u>66,456</u>
Total Net Assets	\$ <u>66,456</u>
Total Liabilities and Net Assets	\$ <u>66,456</u>

Bear Creek Township
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended December 31, 2005

	Non Uniform Pension
Additions	
State Aid	\$ 8,780
Employer Contributions	524
Net Appreciation/Depreciation in Fair Values of Investments	2,585
Total Additions	\$ 11,889
Deductions	
Administrative Expenses	\$ 601
Total Deductions	\$ 601
Change in Net Assets	\$ 11,288
Net Assets - January 1, 2005	\$ 55,168
Net Assets - December 31, 2005	\$ 66,456

Bear Creek Township
Notes To Financial Statements
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bear Creek Township (hereinafter referred to as the Township) is a Second-Class Township, governed by a Board of Supervisors who are elected to four-year terms. The Township provides the following services as authorized by its charter: public safety, police and fire, highways and streets, sanitation, culture-recreation, public improvements, planning and zoning and general administrative services.

Reporting Entity

In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The Township implemented Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" in order to help define and clarify the reporting entity. This statement established new standards for determining organizations which should be included in the financial reporting entity and for reporting the financial information of those organizations. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. Bear Creek Township does not have any relationships with other agencies which would cause them to be a component unit of the Township's annual financial statements.

Basis of Presentation – Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include assets, liabilities, fund balance, revenues and expenditures. The following funds are used:

Governmental Fund Types:

General Fund – The General Fund is the general operating fund of the Township. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Special Revenue Funds maintained by the Township are as follows:

Highway Aid Fund – The Highway Aid Fund is used to account for state aid revenues which are used for building, improving and maintaining roads and bridges.

Capital Projects Funds – The Capital Projects Fund is designed to account for receipt and disbursement of monies for major acquisition or construction of capital facilities.

Fiduciary Fund Types:

Trust and Agency Funds – Fiduciary Funds are used to account for assets held by the Township in a trustee capacity. Included in this category is:

- Pension Trust Fund – funds held for Township Non-Uniformed Employees.

**Bear Creek Township
Notes To Financial Statements
December 31, 2005**

Basis of Accounting and Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are prepared using the economic measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues and expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements. Fixed assets and infrastructure are not capitalized and no provision has been made for depreciation in the government-wide statements. Outside debt and other long-term liabilities have not been recognized in the government-wide Statement of Net Assets.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for the Township. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which the Township is self-financing.

Fund Financial Statements

All governmental funds are accounted for using the current financial resources method and the modified cash basis of accounting. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

Budgets and Budgetary Accounting

The Township follows budgetary policies as established by the Department of Community and Economic Development for second class townships.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and investments with original maturities of three months or less.

Fixed Assets and Depreciation

The Township does not maintain detailed records of its fixed assets used in governmental type operations. The financial statements do not present statements or schedules relating to fixed assets, which are required for a fair presentation in accordance with generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of

**Bear Creek Township
Notes To Financial Statements
December 31, 2005**

the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH & INVESTMENTS

Cash consists of monies deposited in local financial institutions in checking, savings, or money market accounts. In accordance with Act 72, this amount is entirely insured or collateralized by pledged pools of assets maintained by the financial institution where the Township's cash and investments are deposited. At December 31, 2005, the deposits of the Township can be categorized to indicate the level of risk assumed. Category 1 includes bank balances insured by FDIC. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Township's name.

	<u>Book Balance</u>	<u>Bank. Balance</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>
Checking and Savings Accounts	\$ 327,043	\$ 364,951	\$ 100,000	\$ 0	\$ 264,951

NOTE 3 – REAL ESTATE TAXES

The Township Board of Supervisors adopted a resolution approving the tax rate for real estate taxes at 0 Mills for the year ended December, 31, 2005.

NOTE 4 – PENSION PLAN

The Township maintains a defined benefit plans covering non-uniformed employees. The investments would all be considered held to maturity in that significant turnover in the Township's portfolio is not anticipated. A summary of the plan is as follows:

Non-Uniform Employee Pension Plan

The Township's Non-Uniform Employees Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance of 12/28/78 adopted pursuant to Act 205. The plan provides vesting, retirement, survivor, disability and death benefits to plan members and their beneficiaries. The Non-Uniform Employee Pension Plan is available to all full-time employees. A member is eligible for normal retirement after reaching age 65 and completing ten (10) years of service. Monthly pension benefits are based on the highest three consecutive plan years of compensation preceding retirement and are equal to 1.00% of the average monthly pay multiplied by the number of years of service completed by the member. Participants are 100% vested after 10 years of service.

Bear Creek Township
Notes To Financial Statements
December 31, 2005

The Township allocates State Aid received from the Commonwealth of Pennsylvania to the plan. Any funding requirements establishing by the minimum municipal obligation in excess of State Aid must be paid by the Township in accordance with Act 205.

The actuarially determined minimum municipal obligation for the year ended December 31, 2005 was \$9,304. After applying the State Aid allocation and employee contributions, the Township was required to contribute \$524 to the plan for the year 2005.

The following represents information related to the Township's pension plan participation. All contributions are based on annual covered payroll.

<u>Fiscal</u> <u>Year</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2005	\$ 9,304	100 %
2004	\$ 9,558	100 %

NOTE 5 – COMMITMENTS AND CONTINGENCIES

In August 2001, the Township entered into a land lease agreement with SBA Properties, Inc. for the purpose of construction and maintenance of towers used in the transmission and receipt of wireless communication signals. Under the terms of the agreement, the Township receives \$880 per month. This agreement is effective until August 2006.

In May 2002, the Township entered into a land lease agreement with Nextel Partners for the purpose of construction and maintenance of towers used in the transmission and receipt of wireless communication signals. Under the terms of the agreement, the Township receives \$500 per month. This agreement is effective until May 2007.

In December 2003, the Township entered into an agreement with Energy Unlimited, Inc. (EUI) for the construction and operation of twenty-six (26) wind turbines located within the Township. Under the terms of the agreement, the Township will receive the first turbine payment in two installments. The first installment of \$39,000 shall be due at the time the project receives its first building permit. The second installment of \$3,000 per turbine installed in excess of the first thirteen turbines shall be due sixty days after the date the turbines are interconnected with the PP&L electrical system. Additionally, within thirty days of the anniversary date of the initial payment, the township will receive an additional turbine payment based on the number of wind turbines located within the Township. The annual turbine payments start at \$3,000 per turbine and increase gradually to \$3,377 per turbine after the thirteenth year. As of the date of this report, EUI is still in the planning phase of the project and has not applied for any building permits.

In May 2001, the Township entered into an agreement with Global Winds Harvest, Inc., Community Energy and Windpark Bear Creek, LLC for the construction and operation of fourteen (14) wind turbines located within the Township. Under the terms of the agreement, the Township will receive \$35,000 as a one-time payment before January 15th of each calendar year.

Bear Creek Township
Notes To Financial Statements
December 31, 2005

The initial payment shall be paid upon the start of construction counting from the day the construction permit was issued. The annual sum to be received by the Township will be adjusted each year according to the number of wind turbine units in operation in the Township. The adjustment will be \$2,500 for each new turbine or each turbine that is not operating for more than eight months during a given year. At the end of each year, the yearly sum shall be adjusted to reflect increases in the Consumer Price Index, using 2001 as the base year. The project was completed and the wind turbines became operational in February 2006.

From time to time the Township is named as a defendant in various lawsuits. No provision has been provided for in these financial statements for any future losses that may result from these lawsuits. It is the opinion of management and supported by legal council that the impact of these lawsuits will not have a material adverse effect on the financial position of the Township.