

Bear Creek Township

Audit Report

December 31, 2006

Bonita & Rainey
Certified Public Accountants

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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, 2006, 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, 2006, 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.

Plains, Pennsylvania
May 29, 2007

Bonita & Rainey

Bear Creek Township
Statement of Net Assets - Modified Cash Basis
As of December 31, 2006

	<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	\$ 266,616	\$ 43,684	\$ 66,754	\$ 377,054
Total Assets	\$ 266,616	\$ 43,684	\$ 66,754	\$ 377,054
<u>Liabilities & Net Assets</u>				
<u>Liabilities</u>				
Payroll Taxes Payable	\$ 36	\$ -	\$ -	\$ 36
Total Liabilities	\$ 36	\$ -	\$ -	\$ 36
<u>Net Assets</u>				
Unreserved	\$ 266,580	\$ -	\$ -	\$ 266,580
Designated For Specific Fund Purpose	-	43,684	66,754	110,438
Total Net Assets	\$ 266,580	\$ 43,684	\$ 66,754	\$ 377,018
Total Liabilities & Net Assets	\$ 266,616	\$ 43,684	\$ 66,754	\$ 377,054

Bear Creek Township
Statement of Activities - Modified Cash Basis
For The Year Ended December 31, 2006

	Expenditures	Program Revenues			Net (Expense) Revenue & Change in Net Assets
		Charge For Services	Operating Grants	Capital Grants	
Governmental Activities					
General Government	\$ 105,673	\$ 5,848	-	-	\$ (99,825)
Public Safety	103,389	47,752	-	-	(55,637)
Public Works - Sanitation	5,585	-	-	-	(5,585)
Public Works - Highways & Streets	199,185	-	61,975	-	(137,210)
Culture & Recreation	237,128	-	-	130,000	(107,128)
Pension, Taxes and Insurance	93,021	-	6,101	-	(86,920)
Total Primary Government	\$ 743,981	\$ 53,600	\$ 68,076	\$ 130,000	\$ (492,305)

General Revenues:

Taxes Levied for General Purposes	\$ 357,139
Grants, Subsidies, Contributions Not Restricted	28,472
License and Permits	40,161
Fines and Forfeits	6,084
Interest and Rents	83,414
Miscellaneous Income	31,180

Total General Revenues

\$ 546,450

\$ 54,145

322,873

Change In Net Assets

Net Assets - January 1, 2006

Net Assets - December 31, 2006

\$ 377,018

Bear Creek Township
Balance Sheet - Modified Cash Basis
As of December 31, 2006

	<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	\$ 266,616	\$ 43,684	\$ 66,754	\$ 377,054
Total Current Assets	<u>\$ 266,616</u>	<u>\$ 43,684</u>	<u>\$ 66,754</u>	<u>\$ 377,054</u>
Total Assets	<u>\$ 266,616</u>	<u>\$ 43,684</u>	<u>\$ 66,754</u>	<u>\$ 377,054</u>
<u>Liabilites and Fund Balance</u>				
Current Liabilities				
Payroll Taxes Payable	\$ 36	\$ -	\$ -	\$ 36
Total Liabilities	\$ 36	\$ -	\$ -	\$ 36
Fund Balance				
Unreserved	\$ 266,580	\$ -	\$ -	\$ 266,580
Designated For Specific Fund Purpose	<u>-</u>	<u>43,684</u>	<u>66,754</u>	<u>110,438</u>
Total Fund Balance	<u>\$ 266,580</u>	<u>\$ 43,684</u>	<u>\$ 66,754</u>	<u>\$ 377,018</u>
Total Liabilites and Fund Balance	<u>\$ 266,616</u>	<u>\$ 43,684</u>	<u>\$ 66,754</u>	<u>\$ 377,054</u>

Bear Creek Township
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds - Modified Cash Basis
For the Year Ended December 31, 2006

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes and assessments	\$ 357,139	\$ -	\$ -	\$ 357,139
Licenses and permits	40,161	-	-	40,161
Fines and forfeits	5,025	1,059	-	6,084
Interest and Rents	75,641	2,103	5,670	83,414
Intergovernmental revenues	164,573	61,975	-	226,548
Charges for services	53,600	-	-	53,600
Miscellaneous income	31,180	-	-	31,180
Total Revenues	<u>\$ 727,319</u>	<u>\$ 65,137</u>	<u>\$ 5,670</u>	<u>\$ 798,126</u>
Expenditures				
General government	\$ 105,673	\$ -	\$ -	\$ 105,673
Public safety	103,389	-	-	103,389
Public works - Sanitation	5,585	-	-	5,585
Public works - Highways & Streets	173,504	25,681	-	199,185
Culture - Recreation	91,367	-	145,761	237,128
Taxes, Pension & Insurance	93,021	-	-	93,021
Total Expenditures	<u>\$ 572,539</u>	<u>\$ 25,681</u>	<u>\$ 145,761</u>	<u>\$ 743,981</u>
Net Change In Fund Balance	<u>\$ 154,780</u>	<u>\$ 39,456</u>	<u>\$ (140,091)</u>	<u>\$ 54,145</u>
Fund balance - January 1, 2006	<u>111,800</u>	<u>4,228</u>	<u>206,845</u>	<u>322,873</u>
Fund balance - December 31, 2006	<u>\$ 266,580</u>	<u>\$ 43,684</u>	<u>\$ 66,754</u>	<u>\$ 377,018</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable</u>
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
Revenues				
Taxes and assessments	\$ 333,000	\$ 333,000	\$ 357,139	\$ 24,139
Licenses and permits	30,000	30,000	40,161	10,161
Fines and forfeits	2,500	2,500	5,025	2,525
Interest, Rent and Royalties	55,695	55,695	75,641	19,946
Intergovernmental revenues	39,485	39,485	164,573	125,088
Charges for services	32,850	32,850	53,600	20,750
Miscellaneous income	200	200	31,180	30,980
Total Revenues	<u>\$ 493,730</u>	<u>\$ 493,730</u>	<u>\$ 727,319</u>	<u>\$ 233,589</u>
Expenditures				
General government	\$ 119,125	\$ 119,125	\$ 105,673	\$ 13,452
Public safety	74,200	74,200	103,389	(29,189)
Public works - Sanitation	5,000	5,000	5,585	(585)
Public works - Highways & Streets	174,600	174,600	173,504	1,096
Culture - recreation	6,000	6,000	91,367	(85,367)
Pension, Taxes and Insurance	104,500	104,500	93,021	11,479
Total Expenditures	<u>\$ 483,425</u>	<u>\$ 483,425</u>	<u>\$ 572,539</u>	<u>\$ (89,114)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 10,305</u>	<u>\$ 10,305</u>	<u>\$ 154,780</u>	<u>\$ 144,475</u>
Fund balance - January 1, 2006			<u>\$ 111,800</u>	
Fund balance - December 31, 2006			<u>\$ 266,580</u>	

Bear Creek Township
Statement of Fiduciary Net Assets - Fiduciary Funds
As of December 31, 2006

	<u>Non Uniform Pension</u>
<u>Assets</u>	
Current Assets	
Investments	\$ <u>77,232</u>
Total Assets	\$ <u><u>77,232</u></u>
<u>Liabilities and Net Assets</u>	
Net Assets	
Held in trust for pension benefits	\$ <u>77,232</u>
Total Net Assets	\$ <u>77,232</u>
Total Liabilities and Net Assets	\$ <u><u>77,232</u></u>

Bear Creek Township
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended December 31, 2006

	Non Uniform Pension
Additions	
State Aid	\$ 5,766
Net Appreciation/Depreciation in Fair Values of Investments	5,904
Total Additions	\$ 11,670
Deductions	
Administrative Expenses	\$ 894
Total Deductions	\$ 894
Change in Net Assets	\$ 10,776
Net Assets - January 1, 2006	\$ 66,456
Net Assets - December 31, 2006	\$ 77,232

Bear Creek Township
Notes To Financial Statements
December 31, 2006

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, 2006

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, 2006

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

The Township's investment policy is to invest in: (1) United States Treasury Bills, (2) short-term obligations of the United States Government or its agencies or instrumentalities, (3) deposits in savings or time accounts or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository, (4) obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, and (5) shares of certain investment companies registered under the Investment Companies Act of 1940 and the Securities Act of 1933 which invest only in instruments listed in (1) – (4) listed above, maintain a constant per share net asset value and are rated in the highest category by a nationally recognized rating agency.

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At December 31, 2006, \$246,032 of the Township's bank balance of \$389,717 was exposed to custodial credit risk. The amount exposed to custodial credit risk was uninsured but was collateralized by securities pledged by the financial institutions for such funds but not in the Township's name in accordance with the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended.

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, 2006.

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

Bear Creek Township
Notes To Financial Statements
December 31, 2006

multiplied by the number of years of service completed by the member. Participants are 100% vested after 10 years of service.

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, 2006 was \$5,766. After applying the State Aid allocation and employee contributions, the Township was not required to contribute to the plan for the year 2006.

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>
2006	\$ 5,766	100 %
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.

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.

Bear Creek Township
Notes To Financial Statements
December 31, 2006

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. 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.