

2004 Audit
by
Cypher & Cypher

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The accompanying notes are an integral part of these financial statements

Union Township
Finleyville, Pennsylvania
Independent Auditor's Report
As of December 31, 2004
by
Cypher & Cypher

Board of Supervisors
Union Township
Finleyville, Pennsylvania

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Union Township as of and for the year ended December 31, 2004, 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 opinions on these financial statements based on our audit.

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

As discussed in Notes 1 and 3 to the basic financial statements, the Township has not recorded certain capital and infrastructure assets in the government wide financial statements and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital and infrastructure assets be capitalized and depreciated, which would increase the assets and expenses of the government wide financial statements. As discussed in Note 6 to the basic financial statements, the Township has not recorded a liability for compensated absences in the government wide financial statements and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that compensated absences attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities and change the expenses of the government wide financial statements. As discussed in Note 2 to the basic financial statements, the Township has not recorded an asset for delinquent taxes receivable in the government wide financial statements and, accordingly, has not recorded revenues for the current period change in that asset. Accounting principles generally accepted in the United States of America require that delinquent taxes receivable be accrued as assets and revenues as these amounts become delinquent. As discussed in Note 1 to the financial statements, the Township has not recorded a liability for long term debt in the government wide financial statements and, accordingly, has not recorded expenses for the current period change in that liability. Accounting principles generally accepted in the United States of America require that long term debt be accrued as a liability and an expense as these amounts become a liability to the Township. The amount by which the

above departures would affect the assets, liabilities, revenues, and expenses of the governmental activities is not reasonably determinable. As discussed in Note 10 to the basic financial statements, the Township has not included a Management's Discussion and Analysis with its financial statements. The Managements Discussion and Analysis is required supplementary information that is the representation of management and is meant to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The effect of this omission on the reader's understanding of the governmental activities is not reasonably determinable.

In our opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements (government wide) referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Union Township as of December 31, 2004, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the omission of the Management's Discussion and Analysis as discussed in the second preceding paragraph, the financial statements (fund level) referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Union Township as of December 31, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CYPHER & CYPHER

CERTIFIED PUBLIC ACCOUNTANTS

March 31, 2005
Canonsburg, Pennsylvania

Table 1
UNION TOWNSHIP
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2004

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Deposits	113,170
Investments	67,617
Taxes Receivable (Net)	33,967
Other Receivables	21,257
Total Current Assets	236,011
Noncurrent Assets:	
Capital Assets (net)	_____
Total Noncurrent Assets	_____
TOTAL ASSETS	236,011
LIABILITIES	
Current Liabilities:	
Accounts Payable	125,217
Accrued Salaries and Benefits	35,021
Payroll Deductions and Withholdings	4,461
Deferred Revenues	28,375
Total Current Liabilities	193,074
Total Liabilities	193,074
NET ASSETS	
Invested in Capital Assets, Net of Related Debt and Inclusive of Long-Term Receivables	
Restricted for:	
Capital Projects	55,570
Other Reserves	24,879
Unrestricted	(37,512)
TOTAL NET ASSETS	42,937
TOTAL LIABILITIES AND NET ASSETS	236,011

Table 2
UNION TOWNSHIP
STATEMENT OF ACTIVITIES
AS OF DECEMBER 31, 2004

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
General Government	225,938			(225,938)
Public Safety	699,945	65,704		(634,241)
Health and Sanitation	14,000			(14,000)
Highways and Streets	365,664		121,727	(246,937)
Culture and Recreation	18,855			(18,858)
Employee Benefits, Insurance, and Miscellaneous	159,351			(159,351)
Debt Service	47,555			(47,555)
Total Governmental Activities	1,534,311	65,704	121,727	(1,346,880)
Total Government	1,534,311	65,704	121,727	(1,346,880)
General Revenues, Special and Extraordinary Items and Transfers				
Taxes				
Property Taxes				382,769
Other Taxes				617,152
Grants, Subsidies and Contributions, Unrestricted				153,234
Investment Earnings				2,547
Miscellaneous Income				66,764
Total General Revenues, Special and Extraordinary Items and Transfers				1,222,466
Change in Net Assets				(124,414)
Net Assets - Beginning of Fiscal Year				82,473
Prior Period Adjustment				84,878
Net Assets - End of Fiscal Year				42,937

Table 3
UNION TOWNSHIP
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2004

	Governmental Fund Types			Totals
	General Fund	Capital Reserve Fund	Other Funds	
ASSETS				
Cash and Deposits	67,064		46,106	113,170
Investments (At Fair Value)	23,271	44,346		67,617
Taxes Receivable (Net)	33,967			33,967
Accounts Receivable (Net of Allowances)	20,715		539	21,257
Interfund Receivable		11,224		11,224
TOTAL ASSETS	145,020	55,570	46,645	247,235
LIABILITIES AND FUND BALANCES				
Interfund Payable	11,224			11,224
Accounts Payable	103,451		21,766	125,217
Accrued Salaries and Benefits	35,021			35,021
Payroll Deductions and Withholdings	4,461			4,461
Deferred Revenues	28,375			28,375
Total Liabilities	182,532		21,766	204,298
FUND BALANCES				
Fund Balances -				
Reserved for Highways			23,125	23,125
Reserved for Street Lighting			1,754	1,754
Reserved for Capital Reserve		55,570		55,570
Unreserved -				
Undesignated	(37,512)			(37,512)
Total Fund Balances	(37,512)	55,570	24,579	42,937
TOTAL LIABILITIES AND FUND BALANCES	145,020	55,570	46,645	247,235

Table 4
UNION TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2004

Total Fund Balances - Governmental Funds	42,937
Capital Assets used in Governmental Activities are not accounted for in the Governmental Fund financial statements.	---
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.	---
Accrued interest expense on long-term debt is not due and payable in the current period and is not reported as a liability in the funds.	---
Delinquent property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	---

Net Assets - Governmental Activities	42,937

Table 5
UNION TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2004

	Governmental Fund Types			Totals
	General Fund	Capital Reserve Fund	Other Funds	
Revenues				
Real Estate Taxes	382,769			382,769
Local Enabling Taxes	504,574			504,574
Licenses and Permits	65,901			65,901
Fines and Forfeits	46,677			46,677
Interest and Rents	1,730	160	657	2,547
Intergovernmental Revenues	68,549		121,727	190,257
Departmental Earnings	150,389			150,389
Miscellaneous	22,242		12,296	34,538
Total Revenues	1,242,831	160	134,680	1,377,671
Expenditures				
Current:				
General Government	225,541		397	225,938
Public Safety	699,945			699,945
Health and Sanitation	14,000			14,000
Highways and Streets	275,475		93,189	368,664
Culture and Recreation	18,858			18,858
Employee Benefits, Insurance, and Miscellaneous	159,351			169,351
Debt Service				
Principal and Interest	47,555			47,555
Total Expenditures	1,440,725		93,586	1,534,311
Revenues Over (Under) Expenditures	(197,894)	160	41,094	(156,640)
Other Financing Sources (Uses)				
Proceeds from Long Term Financing	29,000			29,000
Sale of Fixed Assets	3,226			3,226
Interfund Transfers In	23,800			23,800
Interfund Transfers (Out)			(23,800)	(23,800)
Total Other Financing Sources	56,026		(23,800)	32,226
Net Change In Fund Balances	(141,868)	160	17,294	(124,414)
Fund Balances - January 1,2004	19,478	55,410	7,585	82,473
Prior Period Adjustment	84,878			84,878
Fund Balances - December 31,2004	(37,512)	55,570	24,879	42,937

Table 6
UNION TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2004

Total Net Change in Fund Balances - Governmental Funds	82,473
Depreciation Expense	---
Capital outlays are reported in governmental funds as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	---
Some delinquent property taxes will not be Collected for several months after the Township's fiscal year ends. They are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.	---
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as the interest accrues regardless of when it is due.	---
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of assets.	---
Change in Net Assets - Governmental Activities	82,473

Table 7
UNION TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET VS ACTUAL - GENERAL FUND
YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget	Actual (budgetary basis)	Over (Under) Budget-Final
Revenues				
Real Estate Taxes	316,000	389,000	382,769	(6,231)
Local Enabling Taxes	478,600	477,000	504,574	27,574
Licenses and Permits	54,200	67,400	65,901	(1,499)
Fines and Forfeits	42,000	42,000	46,677	4,677
Interest and Rents	2,000	2,000	1,730	(270)
Intergovernmental Revenues	48,950	48,950	68,549	19,599
Departmental Earnings	105,000	278,000	150,389	(127,611)
Miscellaneous	34,000	34,000	22,242	(11,758)
Total Revenues	1,080,750	1,338,350	1,242,831	(95,519)
Expenditures				
General Government	189,102	170,363	225,541	55,178
Public Safety	501,264	673,250	699,945	26,695
Health and Sanitation			14,000	14,000
Highways and Streets	426,038	426,038	275,475	(150,563)
Culture and Recreation	23,000		18,858	18,858
Employee Benefits, Insurance, and Miscellaneous	125,900	125,900	159,351	33,451
Debt Service				
Principal and Interest			47,555	47,555
Total Expenditures	1,265,304	1,395,551	1,440,725	45,174
Revenues Over (Under) Expenditures	(184,554)	(57,201)	(197,894)	(140,693)
Other Financing Sources (Uses)				
Proceeds from Extended Term Financing			29,000	
Sales of Assets			3,226	
Interfund Transfers In	122,500	122,500	23,800	(98,700)
Interfund Transfers (Out)				
Total Other Financing Sources & (Uses)	122,500	122,500	56,026	(66,474)
Net Change in Fund Balances	(62,054)	65,299	(141,868)	(207,167)
Fund Equity-January 1,2004	19,478	19,478	19,478	
Prior Period Adjustment			84,878	84,878
Fund Equity – December 31, 2004	(42,576)	84,777	(37,512)	(122,289)

Table 8
UNION TOWNSHIP
STATEMENT OF NET ASSETS- FIDUCIARY FUNDS
AS OF DECEMBER 31, 2004

	<u>Pension Trust Funds</u>
ASSETS	
Current Assets	
Cash and Deposits	
Investments	1,511,480
Total Current Assets	<u>1,511,480</u>
TOTAL ASSETS	<u>1,511,480</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u> </u>
Total Current Liabilities	
NET ASSETS	
Restricted - Pensions	1,511,480
Total Net Assets	<u>1,511,480</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1,511,480</u>

Table 9
UNION TOWNSHIP
STATEMENT OF CHANGES IN NET ASSETS- FIDUCIARY FUNDS
AS OF DECEMBER 31, 2004

	Pension Trust Funds
ASSETS	
Investment Earnings	129,451
Other Additions	
Deductions	
Distributions	22,307
Other Deductions	
	11,217
Changes in Net Assets	95,927
Net Assets-Beginning of year	1,415,553
Net Assets-End of Year	1,511,480

UNION TOWNSHIP
Notes to the Basic Financial Statements
Year Ended December 31, 2004

Note I — Summary of Significant Accounting Policies

The accounting policies of Union Township conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Township is a primary government organized within the laws of the Commonwealth of Pennsylvania. The Township is governed by an elected Board of Supervisors. The Township has the power of taxation and the ability to incur long term debt. As such, it is an independent governmental unit.

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and 1) the Township is able to significantly influence the programs or services performed or provided by the organization: or 2) the Township is legally entitled to or can otherwise access the organization's resources: the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization: or the Township is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves the budget, the issuance of debt, or the levying of taxes. There are no component units of Union Township.

B. Basis of Presentation

The financial statements of Union Township have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Township also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

See Notes 1, 2, 3, 6 and 10 to the financial statements for references in which the Township did not follow accounting principles generally accepted in the United States of America.

Following are the more significant of the Township's accounting policies.

The Township's basic financial statements consist of government-wide statements including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Township at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service program or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts that are reported as interfund activity and balances are eliminated.

2. Fund Financial Statements

During the fiscal year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The General Fund and the Capital Reserve Fund are the Township's major governmental funds.

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Capital Reserve Fund - The Capital Reserve Fund is used to account for major capital facilities and repairs. The major source of revenues for this fund is derived from transfers from the General Fund.

The other governmental funds of the Township are used to account for other resources. These include the Liquid Fuels Fund and the Street Lighting Fund. The Liquid Fuels Fund and the Street Lighting Fund account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Township under a trust agreement for individuals, private organizations, or other governments and are not available to support the Township's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township maintains one pension trust fund.

Trust Fund

Pension Trust Fund — Police Pension Fund — This is a trust fund established to account for revenues and pension expenditures of the Township's police pension fund. Pension trust funds are accounted for in essentially the same manner as governmental funds.

D. Fixed Assets and Long-Term Liabilities:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All Governmental Funds and Fiduciary Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operation statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are not accounted for in the government-wide financial statements. This is not in conformity with generally accepted accounting principles. No depreciation has been provided on general fixed assets.

Long-term liabilities expected to be financed from governmental funds are not accounted for in the government-wide financial statements. This is not in conformity with generally accepted accounting principles.

E. Basis of Accounting:

Basis of Accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds and Fiduciary Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current receivables. Non-current portions of long-term receivables due to governmental funds are deferred until they become current receivables. Non-current portions of long-term loans receivable are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

F. Budgets and Budgetary Accounting:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

Prior to December 31, the budget is legally enacted through passage of a resolution.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

The original budget was passed on December 15, 2003. The amended budget was adopted on January 20, 2004 due to a change in the members of the Board of Supervisors after the November 2003 election. The Township is permitted to amend the budget during the month of January next following any township election. The control level at which the budget must report is function and object.

The General Fund is the only fund for which a budget is required to be adopted.

At December 31st of each year, appropriations lapse and may not be carried forward.

Encumbrances are utilized to the extent necessary for the Township to maintain proper control over the budget. Open encumbrances at year-end lapse and are reappropriated in the next years budget.

G. Cash and Investments:

The Township is permitted to invest funds consistent with sound business practices in the following types of investments and deposit accounts:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Act 20, a Pennsylvania law enacted in June of 1995, expands the allowable investment vehicles to include certain money market mutual funds rated as “AAA” whose investments are limited to those mentioned in the previous paragraph.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that 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.

Deposits

Below is a summary of the Township’s deposits which are insured by the Federal Depository Insurance Company (Category 1), and those which are not insured or collateralized in the Township’s name, but collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the financial institution to pool collateral for all government deposits and have the collateral held by an approved custodian in the institution’s name (Category 3).

	Category 1	Category 3	Bank Balance	Carrying Amount
Cash and Deposits	100,000	78,962	178,962	179,660

There are \$66,490 in certificates of deposit included in the above cash disclosure which are represented on the financial statements as investments.

Investments

The investments of the Township have been categorized to indicate the level of risk assumed by the Township. All investments are either Category 3 investments, signifying that all are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Township’s name; or pooled investment funds which cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

Investments are stated at fair value.

The Township's investments at December 31, 2004 consist of:

	Carrying Amount	Fair Value
<u>Category 3:</u>		
Certificates of Deposit	66,490	66,490
<u>Not Categorized:</u>		
Pennsylvania Local Government Investment Trust	1,127	1,127
PNC Trust — Police Pension Plan	1,511,480	1,511,480
Total	<u>1,579,097</u>	<u>1,579,097</u>

The Pennsylvania Local Government Investment Trust is an investment pool. The fair value of the investment pool is the same as the value of the pool shares owned. Although the pool seeks to maintain the net assets value of \$1 per share, there can be no guarantee that the net asset values will not vary for this price. Regulatory oversight resides with the Board of Trustees and Trust Administration. The participants of the trust annually select an independent auditing firm to examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The Trust is not registered with the Securities and Exchange Commission. Contacts with prospective investors relating to the shares of the pool are conducted through the Investment Adviser's wholly owned subsidiary, PFMAM Inc., member NASD.

The Township's investments are classified into three categories to give an indication of the level of risk assumed by the Township at year-end.

Category 1 includes investments insured or registered or securities, which are held by the Township or its agent in the Township's name.

Category 2 includes uninsured and unregistered investments, with the securities held by the counterparty's trust department or agent in the Township's name.

Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Township's name;

Uncategorized includes pooled investment funds which cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

Note 2 — Property Taxes

Property taxes attach as an enforceable lien on property as of the second Monday in January. Taxes are levied on March 15 and are payable in one installment. The Township bills and collects its own property taxes through a locally elected tax collector. The tax levy for 2004 was based on assessed values on January 1, 2003 of \$33,175,888. The Township tax rate for the year ended December 31, 2004 is 12 mills as levied by the Township.

Taxes may be paid at a 2% discount until May 15, at face until July 15, and at a 10% penalty until the second Monday in January of the following year. At that time, they will be liened with the County, who then are responsible for their collections.

Generally accepted accounting principles require that the Township recognize the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes. The Township has not recognized as revenue the net amount estimated to be collectible. This is not in conformity with generally accepted accounting principles.

Note 3 — Changes in Capital Assets

The Township does not maintain a register of general fixed assets in accordance with generally accepted accounting principles.

Note 4— General Long-Term Debt

Changes in the Township’s long-term obligations during the 2004 year were as follows:

	Notes Payable	Lease Purchase Agreements	Sick Day Obligation	Total
Balance Outstanding at 12-31-03	124,100	41,842	10,000	175,942
Issued	29,000	30,378	675	60,053
Refunded				
Retired		(44,120)		(44,120)
Balance Outstanding at 12-31-04	153,100	28,100	10,675	191,875

The amounts above include a liability for unused employee sick days upon retirement. Per employment contracts, accumulated sick days will be paid at 80%-100% of the employee base salary up to a maximum of one hundred twenty (120) days.

The amount needed to amortize all notes payable outstanding as of December 31, 2004 is as follows:

	Principal	Interest	Total
2005	-	1,531	1,531
2006	153,100	1,531	154,631
	153,100	3,062	156,162

The PennVest note payable is a loan in which the proceeds are being used to cover engineering costs related to the Elrama Sewerage Project. The note is an interest only loan that bears interest at the rate of 1% with the entire principal and unpaid interest due on September 1, 2006.

The amounts needed to amortize all lease purchase agreements outstanding as of December 31, 2004 is as follows:

Year Ending December 31	Principal	Interest	Total
2005	15,956	1,699	17,655
2006	10,332	684	11,016
2007	1,812	27	1,839
	28,100	2,410	30,510

On July 26, 2001, the Township entered into a lease-purchase agreement with Ford Motor Credit Company to purchase two 2001 Ford F450 trucks for \$86,526. The agreement was for a term of four years at an interest rate of 7.15%. Principal and interest payments of \$23,921 are due annually. The balance of this loan was \$-0- at December 31, 2004.

On April 9, 2002, the Township entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a 2001 Ford Crown Victoria Police Sedan for \$21,033. The agreement was for a term of three years at an interest rate of 7.05%. Principal and interest payments of \$7,541 are due annually. The balance of this loan was \$-0- at December 31 2004.

On May 9, 2003, the Township entered into a lease-purchase agreement with Ford Motor Credit Company to purchase another 2001 Ford Crown Victoria Police Sedan for \$19,300. The agreement was for a term of three years at an interest rate of 6.25%. Principal and interest payments of \$6,827 are due annually. The balance of this loan was \$6,426 at December 31, 2004.

On May 4, 2004, the Township entered into a lease purchase agreement with Ford Motor Credit Company to purchase a 2004 Ford Explorer police vehicle for \$21,550. The note bears interest at the rate of 7.00% with final payment due June 4, 2006. The balance of this loan was \$13,998 at December 31, 2004.

On July 21, 2004, the Township entered into a lease-purchase agreement with Kubota Credit Corporation for the purchase of a 2004 Kubota Tractor. The note bears interest at the rate of 4.49%. The agreement requires monthly payments of \$262.71 including interest with final payment due July 21, 2007. The balance of this loan was \$7,676 at December 31, 2004.

Note 5 — Pension Plans

Agent Single-Employer Defined Benefit Pension Plan Disclosure

The Township maintains one pension fund covering the police department. The Combined Balance Sheet for the Pension Trust Fund includes year 2004 net assets held in trust for pension benefits of \$1,511,480.

Plan Description. The Union Township Police Pension Plan (UTPPP) is a single employer defined benefit pension plan administered by the Pennsylvania Municipal Retirement System (PMRS). UTPPP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the Union Township Supervisors. The plan was established under authority of the Union Township Supervisors and is subject to funding and reporting requirements of Commonwealth Act 205 of 1984 and Act 600. A separate financial report is issued by the plan through the plan actuary. That report may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, Pennsylvania 17108-1165 or by calling 800-622-7968.

Funding Policy. The contribution requirements of plan members and the Township are established and may be amended by the Union Township Board of Supervisors. Plan members are not required to contribute to the plan. The Commonwealth of Pennsylvania provides an allocation of funds that must be used for police pension funding. Any excess of this funding may be used to fund other plans of the Township.

Annual Pension Costs. For 2004, the Township's annual pension cost of \$-0- for the UTPPP was equal to the Township's required and actual contributions. The required contribution was determined as part of the January 1, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return and (b) projected salary increases of 5.0%.

The Police Pension Plan is over funded, meaning that the actuarial value of the plan's assets are greater than the actuarial value of the plan's liabilities.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	-0-	100.0%	-0-

Required Supplementary Information

Schedule of Funding Progress for UTPPP — (Most recent available information)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability AAL - Entry Age (b)	Unfunded ML (UAAL) (b)-(a)	Covered Payroll	UAAL as percentage of Covered Payroll ((b-a)/c)
1/1/2001	1,642,038	611,606	(1,030,432)	299,462	(344.1)%

Summary financial information as of December 31, 2004 follows:

Total Assets	1,511,480
Total Liabilities	-0-
Net Assets Held in Trust for Pension Benefits	1,511,480
Total Additions	129,451
Total Expenditures and Other Uses	(33,524)
Change in Net Assets Held in Trust for Pension Benefits	\$95,927

Road Workers Pension Description

The Township Road Workers are employed under the collective bargaining unit of the Teamsters Local No. 205 Road workers. The contract included a provision for the Township’s contribution to the Western Pennsylvania Teamsters and Employers Pension Fund of \$67 per week per full time employee. The weekly contribution is increased each year as stated in the contract. The amount of covered payroll included in the Road Workers Pension Plan was \$193,537 during 2004. The employer contributed \$17,420 to the plan during 2004.

Note 6— Compensated Absences & Other Post-Employment Benefits

The Township has made retirement benefits available to certain employees. The benefit is (1) payment for unused sick days at retirement. Since the dollar amount shown here is for employees who are eligible to retire at December 31, 2004, the total amount due would be considered long term because none of the employees had declared their retirement at December 31, 2004. Generally accepted accounting principles require that the payable for declared retirements be recorded as current liabilities in the General Fund at the time of retirement. The Township has not followed GAAP in regard to this requirement. With respect to other employees that do not meet the criteria established by the Township for retirement, these employees are not eligible to receive payment for their unused sick days at retirement. The General Fund has been used to accumulate funds to provide for the payment of these liabilities. The dollar amounts of the benefits are as follows:

	Sick Day Liability	Total
December 31, 2003 Balance	10,000	10,000
Increases	675	675
Decreases	-0-	-0-
December 31, 2004 Balance	\$10,675	\$10,675

Note 7 - Contingent Liabilities

Union Township participates in grant programs sponsored by other governments. The programs are subject to program compliance audits by the grantor agencies or their representatives. The audits of some of these programs for and including the year ended December 31, 2004 have not yet been conducted. Accordingly, the Township’s compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time although the Township expects such amounts to be immaterial.

Note 8 — Interfund Balances

Individual fund interfund receivable and payable balances at December 31, 2004 were:

Interfund Receivable	Amount	Interfund Payable	Amount
Capital Reserve	11,224	General Fund	11,224
	\$11,224		\$ 11,224

During the year ended December 31, 2004, the following fund level transfers were made:

Interfund Receivable	Amount	Interfund Payable	Amount
General Fund	23,800	Liquid Fuels Fund	23,800
	\$ 23,800		\$23,800

Note 9— Fund Deficit

The General Fund had a fund balance deficit of \$(37,512) at December 31, 2004. The deficit was caused by expenditures exceeding revenues by \$141,868 and the effects of the prior period adjustments as described in Note 12.

Note 10 — Management's Discussion and Analysis

Generally accepted accounting principles require that a Management's Discussion and Analysis be included as part of the required supplementary information immediately preceding the basic financial statements. The MD&A is intended to provide an easily understandable analysis of the government's current and future financial positions as seen by management. The Township has not presented a Management's Discussion and Analysis as required by accounting principles generally accepted in the United States of America.

Note 11 — Risk Management and Litigation

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township manages most risk through the general fund with the purchase of commercial insurance coverage.

The Township estimates that the amount of actual or potential claims against the Township as of December 31, 2004 will not materially affect the financial condition of the Township and will be covered under the present insurance coverage.

Note 12— Prior Period Adjustment

Several prior period adjustments totaling \$84,878 were made in the General Fund to record account balances that were not properly included in the prior year audited balances. These adjustments include recording bank accounts that were not properly included; adjusting cash balances for deposits in transit items; recording prior year's accounts receivable; and recording prior years compensatory time liability that was omitted from the prior year audited balances.

Note 13 - Subsequent Event

On January 14, 2005, the Township obtained financing in the amount of \$21,900 from Aicc, Inc. to pay insurance premiums for policy periods beginning in December 2004.

During January 2005, the Township laid off a significant portion of its personnel in the police department. Due to the contractual agreement between the parties, several grievances have been filed for violation of contract. The outcome and possible liability related to this litigation cannot be determined at this point in time.