

Millcreek Township
Financial Statements
December 31, 2011

MILLCREEK TOWNSHIP

ERIE, PENNSYLVANIA

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Independent Auditor's Report

Millcreek Township Board of Supervisors:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township (the Government), as of and for the year ended December 31, 2011, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government'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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Millcreek Township Water and Sewer Authorities were not audited in accordance with *Government Auditing Standards*. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our considerations of the Millcreek Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8, the budgetary comparison schedules on pages 49 through 52, and the schedule of pension plans' and healthcare plans funding progress on pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Millcreek Township's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Millcreek Township. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Buseck, Barger, Bleil & Co. Inc.

Certified Public Accountants



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Millcreek Township Board of Supervisors:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Millcreek Township, as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Millcreek Township's internal control over financial reporting as a basis for designing our audit procedures for the purpose for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Millcreek Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Millcreek Township's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

As part of obtaining reasonable assurance about whether Millcreek Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

We noted certain matters that we reported to management of Millcreek Township in a separate letter dated May 1, 2012.

Millcreek Township's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Township's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Buseck, Banger, Bleil & Co. Inc.

Certified Public Accountants

**MILLCREEK TOWNSHIP
ERIE, PA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2011**

The discussion and analysis of the Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the Township's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of Millcreek Township's financial performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of 3 components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to private-sector business.

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

In the Statement of Net Assets and the Statement of Activities, the Township is divided into three kinds of activities:

- *Governmental Activities* – Most of the Township's services are reported here including police, administration, and all departments with the exception of our Sewer Revenue Fund.
- *Business-Type Activities* – These services have a charge based upon the amount of usage. The Township charges fees to recoup the cost of the entire operations of our Sewer System Plan as well as all capital expenses associated with the facility.
- *Component Unit* – The Township includes the Sewer and Water Authorities in its report. Although legally separate, these component units are important because the Township guarantees their debt. Separately issued financial statements can be obtained for these component units by contacting the individual Authority.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental fund, proprietary funds, and fiduciary funds.

Governmental Funds –Most of the Township’s activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township’s general government operations and the basic service it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements. The Township has five governmental funds; the General, State, Capital Improvement, Debt Service, and Community Development Block Grant (HUD).

Proprietary Funds – When the Township charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Township’s assets exceeded liabilities by \$57.7 million at the close of the most recent fiscal year. The largest portion of the Township’s net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. An additional portion of the Township’s net assets represents resources that have been restricted by external parties.

Table 1 provides a summary of the Township’s net assets at December 31, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Assets						
Current assets and other assets	\$ 5,508,844	\$ 5,364,501	\$ 1,296,211	\$ 1,052,776	\$ 6,805,055	\$ 6,417,277
Capital assets, Net	60,877,861	61,404,493	49,220,271	48,851,683	110,098,132	110,256,176
Other noncurrent assets	-	-	3,039,560	556,878	3,039,560	556,878
Total Assets	66,386,705	66,768,994	53,556,042	50,461,337	119,942,747	117,230,331
Liabilities						
Current liabilities and other liabilities	(1,442,931)	(1,256,786)	(578,956)	(567,474)	(2,021,887)	(1,824,260)
Long-term liabilities:						
Due within one year	(167,477)	(169,610)	(595,000)	(710,750)	(762,477)	(880,360)
Due in more than one year	(6,985,060)	(5,760,639)	(12,209,042)	(9,365,469)	(19,194,102)	(15,126,108)
Total Liabilities	(8,595,468)	(7,187,035)	(13,382,998)	(10,643,693)	(21,978,466)	(17,830,728)
Net Assets						
Invested in capital assets, net of related debt	60,646,748	61,143,410	36,586,594	38,927,440	97,233,342	100,070,850
Restricted for:						
Road surface repairs	127,736	231,272			127,736	231,272
Unrestricted	(2,983,247)	(1,792,723)	3,586,450	890,204	603,203	(902,519)
Total Net Assets	\$ 57,791,237	\$ 59,581,959	\$ 40,173,044	\$ 39,817,644	\$ 97,964,281	\$ 99,399,603

Table 2 provides a summary of the Township's change in net assets at December 31, 2011 and 2010.

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services	\$ 3,420,483	\$ 2,840,371	\$ 9,306,549	\$ 9,257,479	\$ 12,727,032	\$ 12,097,850
Operating Grants, Contributions	3,317,732	2,018,070	-	-	3,317,732	2,018,070
Capital Grants and Contributions	207,121	339,823	394,651	92,508	601,772	432,331
General Revenues						
Property Taxes	7,722,318	7,689,974			7,722,318	7,689,974
Income Taxes	6,660,606	6,107,234			6,660,606	6,107,234
Other Taxes	1,912,523	1,916,643			1,912,523	1,916,643
Investment Earnings	52,430	59,150	86,827	78,694	139,257	137,844
Other	262,236	303,442			262,236	303,442
Total Revenues	23,555,449	21,274,707	9,788,027	9,428,681	33,343,476	30,703,388
Program Expenses						
General Government	3,959,358	3,404,158			3,959,358	3,404,158
Public Safety	13,541,023	12,071,416			13,541,023	12,071,416
Highways	5,780,772	4,131,077			5,780,772	4,131,077
Parks and Recreation	1,120,901	1,121,569			1,120,901	1,121,569
Community	465,843	134,721			465,843	134,721
Other	488,085	524,734			488,085	524,734
Interest	7,597	8,502			7,597	8,502
Sewer Revenue Fund	-	-	9,415,219	9,107,576	9,415,219	9,107,576
Total Expenses	25,363,579	21,396,177	9,415,219	9,107,576	34,778,798	30,503,753
Excess before Transfers and Other Financing Sources	(1,808,130)	(121,470)	372,808	321,105	(1,435,322)	199,635
Other Financing Sources (Uses)	17,408	17,408	(17,408)	(17,408)	-	-
Increase (Decrease) in Net Assets	(1,790,722)	(104,062)	355,400	303,697	(1,435,322)	199,635
Net Assets, beginning	59,581,959	59,686,021	39,817,644	39,513,947	99,399,603	99,199,968
Net Assets, ending	\$ 57,791,237	\$ 59,581,959	\$ 40,173,044	\$ 39,817,644	\$ 97,964,281	\$ 99,399,603

Governmental Activities

The Township's governmental activities net assets decreased by \$1,790,722 in 2011 compared to a \$104,062 decrease in 2010. Revenues increased by \$2,280,742 or 11%. The Township has held the real estate tax at the current millage for several years. The expenses increased \$3,967,402 or 19% from prior year. The increase was mostly due to increases in highway expenditures and public safety.

Several revenue sources fund our Governmental Activities with the Township real estate taxes being the biggest contributor. The real estate tax rate of 2.459449 mills was approved in December 2008. The local income tax is the next largest revenue generator. The local income tax rate is 1%. The real estate taxes and the local tax account for 61% of revenue sources. Funding sources from various government programs account for 15% of the revenues.

Public Safety is the major activity of the Township, consisting of 53% of governmental activity expenses. The other major activity of the Township is maintaining streets. The streets accounts for 23% of the Township's expenditures.

Business-Type Activities

The net assets from business-type activities increased by \$355,400 in 2011 compared to an increase of \$303,697 in 2010. This increase in 2011 is due to developer contributions. The Sewer Revenue Fund total expenses and transfers of \$9,477,333 is 4% more than the prior year's total expenses of \$9,124,984. Increase is due to increases in sewer treatment expenses.

THE TOWNSHIP'S FUNDS

Information about the Township's major governmental funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of \$23,636,004 and expenditures of \$23,624,842, resulting in an increase in combined fund balance of \$11,162. The increase in fund balance of the general fund was less than the budgeted decrease in fund balance. The decrease in fund balance of the state fund was due to an increase in highway expenditures in 2011. The decrease in the sinking fund balance was due to debt service payments. The supplementary schedules on pages 50 thru 53 show the detail of the variances with the final and adjusted budgeted amounts.

BUDGET

For the general fund, original and final budgeted revenues were \$19,359,425. The actual revenues were almost \$2,170,000 more than projected revenues. This was due to real estate tax revenue being more than projected and an increase in state grants over budgeted. The original and final budgeted expenditures were \$21,466,460. The actual expenditures were less than 1% less than projected.

CAPITAL ASSETS

At December 31, 2011, Millcreek Township had \$60,877,861 invested in capital assets, in governmental activities and \$49,220,271 in business-type activities. The major additions in the governmental activities in the current year were highways and storm retention basins. Additional information about these changes in capital assets is included in Note 3 to the financial statements.

DEBT ADMINISTRATION

As of January 1, 2011, the Township had total outstanding debt payable of \$21,048,608. During the year the Township and its component units issued new debt in the amount of \$19,172,380 and paid principal payments of \$15,515,206, resulting in an ending outstanding debt as of December 31, 2011 of \$24,705,782. More detailed information about long-term liabilities is included in Note 7 to the financial statements.

CONTACTING THE TOWNSHIP'S FINANCING DEPARTMENT

The financial report is designed to provide our citizen's, taxpayers, creditors, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Treasurer of Millcreek Township at 3608 West 26th Street, Erie, PA 16506.

The individual financial statements of Millcreek Township's Sewer and Water Authority's can be obtained by contacting the Millcreek Township Water Authority at 3608 West 26th Street, Erie, PA 16506.

MILLCREEK TOWNSHIP
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Component Units	
	Governmental Activities Fund	Business-Type Activities	Total	Sewer Authority	Water Authority
Assets					
Current Assets:					
Cash	\$ 2,333,884	\$ 734,084	\$ 3,067,968	\$ 5,332,607	\$ 2,390,544
Taxes receivable, Net	1,515,795		1,515,795		
Assessments receivable	55,374		55,374	771,665	134,918
Other accounts receivable	729,347	462,577	1,191,924	8,149	824,234
Due from other governments	364,025	63,755	427,780		
Prepaid interest		35,795	35,795		
Internal balances	152,776		152,776		
Due from component units	101,061		101,061		
Accrued interest receivable			-		32,731
Inventories	256,582		256,582		
Total Current Assets	5,508,844	1,296,211	6,805,055	6,112,421	3,382,427
Noncurrent Assets					
Accounts receivable		38,441	38,441		
Restricted assets			-	2,882,030	178,198
Future sewer improvements		3,001,119	3,001,119		
Deferred bond costs			-		168,601
Lease rentals receivable			-	12,650,000	
Land	3,746,175		3,746,175		
Building - Net	4,718,187	7,162	4,725,349		
Infrastructure - Net	49,969,531		49,969,531		
Sewer System - Net		49,069,272	49,069,272		
Water distribution system - Net			-		23,982,110
Furniture - Net		4,160	4,160		1,571
Machinery & Equipment - Net	1,181,723	52,190	1,233,913	207,390	3,085
Vehicles - Net	1,262,245	87,487	1,349,732		8,013
Total Noncurrent Assets	60,877,861	52,259,831	113,137,692	15,739,420	24,341,578
Total Assets	66,386,705	53,556,042	119,942,747	21,851,841	27,724,005
Liabilities:					
Current Liabilities					
Accounts payable	441,719	264,121	705,840	233,322	242,053
Accrued salaries and benefits	258,436	19,892	278,328		
Payroll withholdings	1,404		1,404		
Contractor deposits	715,043		715,043	65,000	7,200
Other liabilities	-	294,943	294,943		
Accrued interest	-		-		31,474
Current portion of long-term debt and lease rentals	167,477	595,000	762,477	595,000	147,909
Deferred revenues	26,329		26,329	1,804,554	
Total Current Liabilities	1,610,408	1,173,956	2,784,364	2,697,876	428,636
Long-Term Liabilities					
Loans payable	431,425		431,425		305,337
Bonds and lease rentals payable	-	12,055,000	12,055,000	11,925,117	4,003,466
Post-employment benefits	5,324,188		5,324,188	46,083	36,208
Long-term portion of compensated absences	1,229,447	154,042	1,383,489	265,639	47,798
Total Long-Term Liabilities	6,985,060	12,209,042	19,194,102	12,236,839	4,392,809
Total Liabilities	8,595,468	13,382,998	21,978,466	14,934,715	4,821,445
Net Assets					
Investment in capital assets, net of related debt	60,646,748	36,586,594	97,233,342	229,335	19,091,533
Restricted for:					
Capital Activity and Debt Service				2,616,391	3
Road surface repairs	127,736		127,736		
Unrestricted	(2,983,247)	3,586,450	603,203	4,071,400	3,811,024
Total Net Assets	\$ 57,791,237	\$ 40,173,044	\$ 97,964,281	\$ 6,917,126	\$ 22,902,560

MILLCREEK TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 3,959,358	\$ 2,288,599	\$ 414,499	\$ 207,121
Public Safety	13,541,023	556,565	1,271,808	
Highways	5,780,772	321,571	1,209,582	-
Parks and recreation	1,120,901	253,748		
Community	465,843		421,843	-
Other expenditures	488,085			
Interest on long-term debt	7,597			
<u>Total Governmental Activities</u>	<u>25,363,579</u>	<u>3,420,483</u>	<u>3,317,732</u>	<u>207,121</u>
Business-type activities:				
Sewer Revenue Fund	9,415,219	9,306,549	-	394,651
<u>Total Primary Government</u>	<u>\$ 34,778,798</u>	<u>\$ 12,727,032</u>	<u>\$ 3,317,732</u>	<u>\$ 601,772</u>
<u>Component Units:</u>				
Water Authority	<u>\$ 3,766,538</u>	<u>\$ 3,610,975</u>	<u>\$ -</u>	<u>\$ 247,750</u>
Sewer Authority	<u>\$ 1,849,069</u>	<u>\$ 27,536</u>	<u>\$ -</u>	<u>\$ 845,498</u>

General Revenues:
Property Taxes Levied for:
 General Purposes
 Capital Outlay
Income Taxes Levied for:
 General Purposes
 Other taxes
Investment earnings
Miscellaneous
Transfers
Total General Revenues and Transfers

Change in net assets

Net assets - Beginning

Net assets - Ending

MILLCREEK TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Sewer Authority	Water Authority
\$ (1,049,139)	\$ -	\$ (1,049,139)	\$ -	\$ -
(11,712,650)		(11,712,650)	-	-
(4,249,619)		(4,249,619)	-	-
(867,153)		(867,153)	-	-
(44,000)		(44,000)	-	-
(488,085)		(488,085)	-	-
(7,597)		(7,597)	-	-
<u>(18,418,243)</u>	<u>-</u>	<u>(18,418,243)</u>	<u>-</u>	<u>-</u>
-	285,981	285,981	-	-
<u>(18,418,243)</u>	<u>285,981</u>	<u>(18,132,262)</u>	<u>-</u>	<u>-</u>
				92,187
			(976,035)	
7,176,098	-	7,176,098	-	-
546,220	-	546,220	-	-
6,660,606	-	6,660,606	-	-
1,912,523	-	1,912,523	-	-
52,430	86,827	139,257	54,750	17,325
262,236	-	262,236	3,222,180	100,944
17,408	(17,408)	-	-	-
<u>16,627,521</u>	<u>69,419</u>	<u>16,696,940</u>	<u>3,276,930</u>	<u>118,269</u>
(1,790,722)	355,400	(1,435,322)	2,300,895	210,456
<u>59,581,959</u>	<u>39,817,644</u>	<u>99,399,603</u>	<u>4,616,231</u>	<u>22,692,104</u>
<u>\$ 57,791,237</u>	<u>\$ 40,173,044</u>	<u>\$ 97,964,281</u>	<u>\$ 6,917,126</u>	<u>\$ 22,902,560</u>

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Capital Projects Fund	State Fund Special Revenue Fund	Sinking Fund	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 1,447,986	\$ 400,073	\$ 127,784	\$ 358,041	\$ 2,333,884
Taxes receivable	1,515,795				1,515,795
Assessment receivables	55,374				55,374
Other accounts receivable	498,164				498,164
Due from other governments	364,025				364,025
Due from other funds	152,824				152,824
Due from component units	101,061				101,061
Inventories	256,582				256,582
<u>Total Assets</u>	<u>\$ 4,391,811</u>	<u>\$ 400,073</u>	<u>\$ 127,784</u>	<u>\$ 358,041</u>	<u>\$ 5,277,709</u>
 <u>Liabilities and Fund Balances</u>					
<u>Liabilities</u>					
Accounts payable	\$ 441,719				\$ 441,719
Accrued salaries and benefits	258,436				258,436
Payroll withholdings	1,404				1,404
Amount due other funds			48		48
Contractor deposits	715,043				715,043
Deferred revenues	455,643				455,643
<u>Total Liabilities</u>	<u>1,872,245</u>	<u>-</u>	<u>48</u>	<u>-</u>	<u>1,872,293</u>
 <u>Fund Balances</u>					
Nonspendable	256,582				256,582
Restricted for:					
Road surface repairs			127,736		127,736
Assigned to:					
Debt service				358,041	358,041
Capital Projects		400,073			400,073
Traffic signals	28,853				28,853
Subsequent years' budget	2,234,131				2,234,131
<u>Total Fund Balances</u>	<u>2,519,566</u>	<u>400,073</u>	<u>127,736</u>	<u>358,041</u>	<u>3,405,416</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 4,391,811</u>	<u>\$ 400,073</u>	<u>\$ 127,784</u>	<u>\$ 358,041</u>	<u>\$ 5,277,709</u>

MILLCREEK TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS - BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total Fund Balances - Governmental Funds \$ 3,405,416

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$92,858,369 and the accumulated depreciation is \$31,980,508. 60,877,861

Property taxes receivable will be collected this year but are not available soon enough to pay for current period's expenditures, and therefore are deferred in the funds. 429,314

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Loans payable	(367,719)	
Post employment benefits	(5,324,188)	
Compensated absences (sick pay and vacations)	(1,229,447)	<u>(6,921,354)</u>

Total Net Assets - Governmental Activities \$ 57,791,237

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Capital Projects Fund	State Fund Special Revenue Fund	Sinking Fund	HUD Program	Total Governmental Funds
<u>Revenues</u>						
Property and other taxes	\$ 15,777,763	\$ 546,220	\$ -	\$ -	\$ -	\$ 16,323,983
Licenses and permits	1,015,644					1,015,644
Fines	229,296					229,296
Intergovernmental	3,213,501		1,126,320		421,843	4,761,664
Charges for services	175,314					175,314
Special Assessments	574,434					574,434
Rentals	147,654					147,654
Investment earnings	40,151		7,517	4,762		52,430
Miscellaneous	240,440					240,440
Total Revenues	21,414,197	546,220	1,133,837	4,762	421,843	23,520,859
<u>Expenditures</u>						
General government	3,444,821					3,444,821
Public safety	11,485,856					11,485,856
Highways	4,955,143	493,015	1,237,373			6,685,531
Parks and recreation	1,017,169					1,017,169
Community	44,000				421,843	465,843
Miscellaneous	488,085					488,085
Debt Service:						
Principal	-			29,939		29,939
Interest and other charges	-			7,598		7,598
Total Operating Expenditures	21,435,074	493,015	1,237,373	37,537	421,843	23,624,842
Excess (deficiency) of revenues over expenditures	(20,877)	53,205	(103,536)	(32,775)	-	(103,983)
<u>Other Financing Sources</u>						
Sale of Fixed Assets	97,737					97,737
Transfers in (out)	17,408					17,408
Total other financing sources	115,145	-	-	-	-	115,145
Net change in fund balances	94,268	53,205	(103,536)	(32,775)	-	11,162
Fund balances - beginning	2,425,298	346,868	231,272	390,816	-	3,394,254
Fund balances - ending	\$ 2,519,566	\$ 400,073	\$ 127,736	\$ 358,041	\$ -	\$ 3,405,416

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Governmental Funds

Amounts reported for governmental activities in the statement of net assets are different because: \$ 11,162

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Depreciation Expense	(2,518,276)	
Capital Outlays	<u>1,991,644</u>	(526,632)

Because some property taxes will not be collected for several months after the Township's year ends, they are not considered as "available" revenues in the governmental funds. Deferred revenues decreased by this amount this year. (28,534)

Payment of loan principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. 29,940

In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resource used. This amount represented the difference between the amount earned versus the amount used. 30,660

On the statement of activities the actual and projected long term expenditures for post employment benefits are reported whereas on the government funds only the actual expenditures are recorded for post employment benefits. (1,307,318)

Total Change in Fund Balance - Governmental Activities **\$ (1,790,722)**

MILLCREEK TOWNSHIP
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011

	Business-type Activity - Sewer Revenue Fund
<u>Assets</u>	
<u>Current Assets:</u>	
Cash	\$ 734,084
Credit due from City of Erie	462,577
Due from other governments	63,755
Prepaid interest	35,795
<u>Total Current Assets</u>	1,296,211
<u>Noncurrent Assets</u>	
Other receivables	38,441
Future sewer system improvements	3,001,119
Sewer system - net	49,069,272
Building - net	7,162
Furniture - net	4,160
Machinery & Equipment - net	52,190
Vehicles - net	87,487
<u>Total Noncurrent Assets</u>	52,259,831
<u>Total Assets</u>	53,556,042
<u>Liabilities:</u>	
<u>Current Liabilities</u>	
Accounts payable	264,121
Accrued salaries and benefits	19,892
Other liabilities	294,943
Current portion of lease rental payable	595,000
<u>Total Current Liabilities</u>	1,173,956
<u>Long-Term Liabilities</u>	
Lease rental payable	12,055,000
Long-term portion of compensated absences	154,042
<u>Total Long-Term Liabilities</u>	12,209,042
<u>Total Liabilities</u>	13,382,998
<u>Net Assets</u>	
Investment in capital assets, net of related debt	36,586,594
Unrestricted	3,586,450
<u>Total Net Assets</u>	\$ 40,173,044

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business Type Activity - Sewer Revenue Fund
<u>Operating Revenues</u>	
Charges for Services	\$ 9,306,549
<u>Operating Expenses</u>	
Sewer treatment and transportation	5,257,241
Inspection and maintenance wages	964,074
Social security taxes	75,298
Insurance	433,605
Repairs and maintenance	331,627
Vehicle operating expense	65,007
Clean Water Fund	3,000
Retirement	9,615
Utilities	183,726
Miscellaneous expenses	10,461
Sewer system repairs	669,840
Administrative expenses	221,391
Depreciation	775,428
<u>Total Operating Expenses</u>	9,000,313
<u>Operating Income (Loss)</u>	306,236
<u>Non Operating Expenses</u>	
Penalties and interest	86,827
Interest expense	(414,906)
<u>Total Non Operating Expenses</u>	(328,079)
<u>Income (Loss) Before Contributions and Transfers</u>	(21,843)
Transfers Out	(17,408)
Contributions	394,651
Change in Net Assets	355,400
<u>Net Assets - Beginning</u>	39,817,644
<u>Net Assets - Ending</u>	\$ 40,173,044

MILLCREEK TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business Type Activity - Sewer Revenue Fund
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 9,269,130
Cash received from Water and Sewer Authorities	165,596
Cash payment to vendors and employees for goods and services	(8,365,993)
<u>Net Cash Provided by Operating Activities</u>	1,068,733
<u>Cash Flows From Non-Capital Financing Activities:</u>	
Transfers Out	(17,408)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Payment of reimbursable expenditures	226,218
Acquisition of capital assets	(53,503)
Interest paid on debt	(572,188)
Lease rental payment for bonds	(740,000)
<u>Net Cash Used for Capital and Related Financing Activities</u>	(1,139,473)
<u>Cash Flows From Investing Activities:</u>	
Interest and penalties	86,827
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	(1,321)
<u>Cash and Cash Equivalents at Beginning of Year</u>	735,405
<u>Cash and Cash Equivalents at End of Year</u>	\$ 734,084
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
<u>Operating Income (Loss)</u>	\$ 306,236
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>	
Depreciation	776,014
Changes in Assets and Liabilities:	
(Increase) decrease in receivables and prepaid expenses	(225,802)
Increase (decrease) in accounts payable and accruals	212,285
<u>Total Adjustments</u>	762,497
<u>Net Cash Provided by Operating Activities</u>	\$ 1,068,733
 <u>Noncash Transactions</u>	
Contributed Assets	\$ 394,651

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	Trust Funds	
	Pension Total	Deferred Compensation
<u>Assets:</u>		
Cash	\$ 5,499	\$
Accrued interest receivable	110,199	
Due from general fund		
Investments at fair value:		
Pension trust	42,806,935	
Deferred compensation		3,367,309
<u>Total Assets</u>	42,922,633	3,367,309
<u>Liabilities:</u>		
Earned income tax escrow liability		
Due to general fund		
Contractor deposits		
Amount due escheat		
Future compensation due to employees		3,367,309
<u>Total Liabilities</u>	-	3,367,309
<u>Net Assets</u>		
Deposits held intrust for pension benefits	42,922,633	
<u>Total Net Assets</u>	\$ 42,922,633	\$ -

MILLCREEK TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

<u>Earned Income</u> <u>Tax Escrow</u>	<u>Agency Funds</u>		<u>Total</u> <u>(Memorandum Only)</u>
	<u>Escheats</u> <u>Escrow</u>	<u>Perform. &</u> <u>Surety Bond</u>	
\$ 631,117	\$ 3,610	\$ 1,466,213	\$ 2,106,439
			110,199
72,368			72,368
			42,806,935
			3,367,309
<u>703,485</u>	<u>3,610</u>	<u>1,466,213</u>	<u>48,463,250</u>
703,485			703,485
		40,345	40,345
		1,425,868	1,425,868
	3,610		3,610
			3,367,309
<u>703,485</u>	<u>3,610</u>	<u>1,466,213</u>	<u>5,540,617</u>
			42,922,633
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,922,633</u>

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Pension Funds</u>
<u>Additions:</u>	
Contributions - Commonwealth of Pennsylvania	\$ 1,236,811
Contributions - Millcreek Township	292,606
Contributions - Employees	420,684
Total Contributions	<u>1,950,101</u>
Investment Income:	
Investment earnings	<u>962,155</u>
<u>Total Additions</u>	<u>2,912,256</u>
<u>Deductions:</u>	
Benefit payments	2,129,654
Decrease in fair value of investments	1,000,735
Contract administration and actuarial services	285,453
<u>Total Deductions</u>	<u>3,415,842</u>
<u>Change in Net Assets</u>	(503,586)
<u>Total Net Assets - Beginning</u>	<u>43,426,219</u>
<u>Total Net Assets - Ending</u>	<u>\$ 42,922,633</u>

MILLCREEK TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Millcreek Township is a second class township. It was organized in 1803 under the laws of the State of Pennsylvania. The Township is governed by three elected supervisors, which serve a six-year term. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Each discretely presented component unit is reported separately to emphasize that they are legally separate from the Township.

Discretely Presented Component Units

Millcreek Township Sewer Authority - The Millcreek Township Sewer Authority, which is a financing Authority, constructs, alters and improves the sewer system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Sewer Authority.

Millcreek Township Water Authority - The Millcreek Township Water Authority, which is an operating Authority, constructs, alters, improves and operates the water system for Millcreek Township. The Township appoints the board members and guarantees the bonded debt of the Water Authority.

Complete financial statements for each of the individual component units may be obtained at the administrative offices of the entities.

B. Government-wide and Fund Financial Statements

Financial information for the Township, the primary government, the Sewer Revenue Fund and the component units, is presented as follows:

- Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Township's financial activities.
- Basic Financial Statements:

Government-wide Financial Statements – Government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report all of the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services that are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and for the single business-type activity of the Township. Direct expenses are those that are specifically associated with a service, program or department and therefore

clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational and capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with the program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements – During the 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 and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Fiduciary funds are reported by type.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are reported only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Township uses funds to maintain its financial records during the 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.

The Township reports the following Governmental Funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund – The Special Revenue fund is used to account for the charges for proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purpose. The State Highway Aid Fund is the only fund in this group.

Debt Service Fund – The Debt Service fund is used to account for the property taxes collected for the payment of general long-term debt principal, interest and related costs.

Capital Project Funds – The Capital Project funds account for revenues to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

The Township reports the following Proprietary Fund:

Sewer Revenue Fund – This is the only enterprise fund of the Township and it accounts for the operations of the sewer system.

The Township applies all Governmental Accounting Standards (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Township also reports the following Fiduciary Fund types:

Fiduciary Funds – 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 therefore not available to support the Township's own programs. The Township has a Pension Trust fund and a Deferred Compensation fund.

Agency funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township has three agency funds to account for assets held as an agent for individuals, and/or other governmental units.

D. Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund and the State Fund on a modified accrual basis of accounting. Adoption of the budget by the Township Supervisors constitutes appropriations for the expenditures for the fiscal year. Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are appropriated in the next year.

E. Use of Estimates

The preparation of general purpose 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 expenditures during the reporting period. Actual results could differ from those estimates.

F. Other Accounting Policies

Deposits and Investments

Cash and cash equivalents, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

Investments are reported at their fair market value. The Township is permitted to invest in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

The deposit policy of the Township adheres to state statutes and prudent business practice.

Inventories and Prepaid Items

Inventory of materials and supplies is priced at cost. Inventory shown in the General Fund consists of expendable supplies held for consumption. The amount thereof has been recorded as an asset, offset by an equity account of an equal amount. The cost of such inventory has been recorded as an expenditure at the time individual inventory items were purchased.

Payments made to vendors for services that will benefit future periods are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which it was consumed.

Restricted Assets

Certain assets of the Sewer Revenue Funds are classified as restricted because their use is limited by applicable covenants.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. The government defines capital assets, as assets with an initial, individual cost of more than \$1,500 for equipment, improvements and infrastructure, and an estimated useful life in excess of one-year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the component units are generally reported using the same policy as the Township.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight-line method over the estimated useful lives as follows:

Description	Governmental	Business-Type
	Activities	Activities
	Estimated Lives	Estimated Lives
Land	N/A	N/A
Buildings and Improvements	5 - 50 years	25 years
Equipment	3 - 25 years	5 - 10 years
Vehicles	3 - 7 years	3 - 7 years
Furniture & Fixtures	7 - 10 years	7- 10 years
Infrastructure	10 - 99 years	25 - 99 years

The sewer system that was constructed by the Millcreek Township Sewer Authority is carried as an asset of the Sewer Revenue Fund of Millcreek Township. The sewer system that was constructed by Millcreek Township is carried at the fair market value of this system as of May 1, 1958. The sewer lines that were installed by private developers are carried at the amount these lines would have cost if they were constructed by the Authority. The appraisal values were determined by the Authority's consulting engineers.

The valuation of the sewer system as of December 31, 2011 and 2010 is comprised of the following:

	2011	2010
Sewer system originally constructed by Township @ appraised value	\$ 1,241,299	\$ 1,241,299
Sewer lines installed by private developers @ appraised value	23,711,488	23,316,837
Sewer system improvements constructed by Sewer Authority @ cost	43,122,283	42,425,837
Sewer system additions-Sewer Revenue Fund	552,206	552,206
	<u>\$ 68,627,276</u>	<u>\$ 67,536,179</u>

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Receivables and payables resulting from transactions between primary government and the component unit for services provided or goods received are classified as "Due to Primary Government" or "Due from Component Unit" on the fund financial statements.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim at the end of the fiscal period, but which were levied to finance future year operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The amount is based on accumulated sick leave and employee wage rates at fiscal year-end taking into consideration any limits specified in the Township's termination policy.

The Township's vacation, compensated time and sick pay policy in effect during 2011 is as follows:

Vacation:

General Employees:

- 1-5 years service - 2 weeks annual vacation
- 5-10 years service - 3 weeks annual vacation
- Over 10 years service - 3 weeks plus 1 day for each year service
over 10 years

Vacation carryover - Maximum 10 days

No vacation during first year of employment.

Police:

Same provisions as general employees except vacation carryover is a maximum of 45 days.

Compensated Time:

All Township employees except streets and garage employees can elect to accumulate overtime worked instead of being paid. This accumulated overtime can then be taken as vacation. Streets and garage employees can only elect compensated time for over time worked on holidays. The compensated time can be carried over indefinitely by all employees except management employees.

Sick Pay:

General Employees:

Sick days - Hired before 1-1-96 - 15 days per year - none in 1st year of employment.

Hired after 1-1-96 - 10 days per year - none in 1st year of employment

Maximum accumulation - 165 days payable at rate of 1 hour for 1st 50 days, 2 hours for next 50 days and 3 hours for all days over 100 up to maximum of 165 days.
Payable on termination if eligible for retirement.

Police:

Sick days - 15 days per year after first year of employment; 5 days during 1st year of employment.

Maximum accumulation - 220 days payable at rate of 1/3 of each day accumulated. Payable on termination if eligible for retirement. Effective in 2000, after reaching the maximum accumulation of 220 sick days, one day for each three days not used of the annual fifteen sick days allowed will be paid or time off taken during the following year.

The Water Authority employees are entitled to paid sick and vacation leave depending on the number of years of service. The maximum amount of sick and vacation days that can be carried over is 164 and 10, respectively. The amount of accrued accumulated sick and vacation pay was \$47,798 and \$78,832 December 31, 2011 and 2010 respectively.

Long-Term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

NEW PRONOUNCEMENTS

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) effective for reporting periods after June 15, 2010. The statement establishes fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources. The Township has implemented GASB 54 in the current year financial statements and has disclosed information about fund balance reporting below.

Fund Balances

The Township has adopted GASB 54 as part of its 2011 fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance classifications and the constraints imposed on the uses of those resources.

Nonspendable: This category includes the resources of imprest funds and inventories not available for appropriation. The Township's nonspendable fund balance consists of prepaid expenses and inventory.

Restricted items: This category includes items restricted for specific purposes by law or by external parties. The Township includes the State Special revenue fund balance as restricted. These funds are restricted for use on highway and road maintenance and repairs.

Committed items: This category includes items that contain self-imposed constraints of the government from its highest level of decision making authority. The Township Board has not committed any portion of the fund balance for 2011.

Assigned items: Assigned items represent the Board's intent to use certain resources for specific purposes and are not restricted or committed. Appropriated Assigned Fund Balance is an appropriation of existing fund balance to eliminate a projected budget deficit in the subsequent year's budget in an amount not greater than the projected excess of expected expenditures over expected revenues. The Township has certain funds assigned for debt service, capital projects and traffic signals.

Unassigned: This represents the remainder of the Board's equity in governmental fund-type balances. The Township does not currently have a minimum fund balance policy. The Township policy is that assigned funds will be reduced first and then unassigned amounts.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Township's policy is to apply restricted assets first.

Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Revenues and Rate Structures

Revenues from water and wastewater services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Assets when earned. Contributions include system improvements constructed by private developers and by Millcreek Township Sewer Authority.

Special and Extraordinary Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

Net Assets – Proprietary Fund

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including

self-imposed legal mandates, less any related liabilities. The restricted assets at December 31, 2011 and 2010 consist of monies held for future improvements to the sewer system. Unrestricted net assets consist of all other net assets not included in the above categories.

NOTE 2 - CASH AND INVESTMENTS:

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in other investments consistent with sound business practice.

The deposit and investment policy of the Township adheres to state statutes and prudent business practice. Deposits of the governmental funds are maintained in demand deposits. The deposits and investments of the pension trust funds and the deferred compensation trust fund are administered by the investment managers and are held separately from those of the other municipal funds.

Deposits

Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (balance sheet) and bank balances for Millcreek Township are listed below.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Primary Government	\$ 3,067,968	\$ 3,406,636
Fiduciary Funds	2,106,439	2,106,439
Component Units	10,605,184	10,413,607
Total Reporting Entity	<u>\$ 15,779,591</u>	<u>\$ 15,926,682</u>

The following reconciles deposits and investments to cash and cash equivalents, as presented in the balance sheet:

December 31, 2011	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Disclosures regarding deposits:		
Deposits	\$ 3,067,968	\$ 2,106,439
Investments		46,174,244
Total	<u>\$ 3,067,968</u>	<u>\$ 48,280,683</u>
Balance Sheet Amounts:		
Cash and cash equivalents:		
Unrestricted	\$ 2,281,001	\$ -
Restricted	786,967	2,106,439
Total cash and cash equivalents	<u>3,067,968</u>	<u>2,106,439</u>
Investments:		
Restricted	-	46,174,244
Total Investments	-	46,174,244
Total	<u>\$ 3,067,968</u>	<u>\$ 48,280,683</u>

Component Units	December 31, 2011
Disclosures regarding deposits:	
Deposits	\$ 10,339,545
Investments	265,639
Total	<u>\$ 10,605,184</u>
Balance Sheet Amounts:	
Cash and cash equivalents:	
Unrestricted	\$ 7,723,151
Restricted	2,616,394
Total cash and cash equivalents	<u>10,339,545</u>
Investments:	
Restricted	265,639
Total Investments	<u>265,639</u>
Total	<u>\$ 10,605,184</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Millcreek Township does not have a policy for custodial credit risk. As of December 31, 2011, \$2,570,207 of Millcreek Township's bank balance was exposed to custodial credit risk. \$836,429 of the bank balance was covered by federal depository insurance. The balance was insured by assets pledged by the trust bank, but not in the Township's name. The depositories secure the deposit of these funds, which are not covered by applicable Federal Deposit Insurance Corporation coverage in accordance with the Pooled Asset Pledging Law, Act 72 of the 1971.

Investments

As of December 31, 2011 the Township had the following investments:

	Fair Value/ Carrying Amount
<u>Primary Government:</u>	
General Employee and Police Pension Fund:	
Short Term Investment Funds	\$ 3,149,953
US Government Securities	1,777,732
Agency	4,662,831
Corporate Stocks	24,171,168
Corporate Debt	5,467,676
Mortgage	692,331
Other Fixed Assets	2,885,244
	<u>42,806,935</u>
<u>Total Pension Trust Funds</u>	<u>42,806,935</u>
Agency Fund:	
Deferred Compensation Fund	3,367,309
<u>Total Primary Government</u>	<u>46,174,244</u>
<u>Component Units</u>	265,639
<u>Total Reporting Entity</u>	<u>\$ 46,439,883</u>

The investments in cash and cash equivalents, short-term investments, and certain domestic and international equities are valued based on quoted market prices, and therefore classified within Level 1 of the fair value hierarchy.

Interest Rate Risk

Millcreek Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

This is the risk that an issuer of a debt type investment will not fulfill its obligations to the holder of the investment. This is measured as a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. 14% of the Pension funds were invested in U.S. government securities. The Township does not have a formal investment policy with respect to credit risk.

Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. As of December 31, 2011, all the investments were restricted investments for deferred compensation and pension funds.

Custodial Credit Risk

For an investment, custodial credit risk, the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral security that are in the possession of an outside party. The Township has some investments in the pension funds that are subject to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Government Activities				
Capital Assets, Non-depreciable:				
Land	\$ 3,746,175	\$ -	\$ -	\$ 3,746,175
Total Capital Assets, Non-Depreciable	<u>3,746,175</u>	<u>-</u>	<u>-</u>	<u>3,746,175</u>
Capital Assets, Depreciable				
Building and Improvements	9,680,866			9,680,866
Infrastructure	69,151,210	1,652,744		70,803,954
Equipment	4,337,477	106,987		4,444,464
Vehicles	4,492,176	266,524	575,790	4,182,910
Total Capital Assets, Depreciable	<u>87,661,729</u>	<u>2,026,255</u>	<u>575,790</u>	<u>89,112,194</u>
Less Accumulated Depreciation:				
Building and Improvements	(4,694,996)	(267,683)		(4,962,679)
Infrastructure	(19,160,233)	(1,674,190)		(20,834,423)
Equipment	(3,044,233)	(218,508)		(3,262,741)
Vehicles	(3,103,949)	(357,895)	(541,179)	(2,920,665)
Total Accumulated Depreciation	<u>(30,003,411)</u>	<u>(2,518,276)</u>	<u>(541,179)</u>	<u>(3,198,058)</u>
Total Capital Assets, Depreciable, Net	<u>57,658,318</u>	<u>(492,021)</u>	<u>34,611</u>	<u>57,131,686</u>
Governmental Activities Capital Assets, Net	<u>\$ 61,404,493</u>	<u>\$ (492,021)</u>	<u>\$ 34,611</u>	<u>\$ 60,877,861</u>

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Business-Type Activities				
Capital Assets, Depreciable				
Sewer System	\$ 67,536,179	\$ 1,091,097	\$ -	\$ 68,627,276
Operating Equipment	444,757	17,895	-	462,652
Office Equipment	81,859	3,452	-	85,311
Vehicles	564,743	32,156	-	596,899
Building	92,346	-	-	92,346
Total Capital Assets, Depreciable	<u>68,719,884</u>	<u>1,144,600</u>	<u>-</u>	<u>69,864,484</u>
Less Accumulated Depreciation	<u>(19,868,201)</u>	<u>(776,012)</u>	<u>-</u>	<u>(20,644,213)</u>
Total Capital Assets, Depreciable, Net	<u>\$ 48,851,683</u>	<u>\$ 368,588</u>	<u>\$ -</u>	<u>\$ 49,220,271</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 352,559
Public Safety	1,133,224
Highways	906,579
Parks and Recreation	125,914
	<u>\$ 2,518,276</u>
Business-Type Activities:	
Sewer Revenue Fund	<u>\$ 776,012</u>

Capital asset activity for the discretely presented component units are as follows:

Millcreek Township Water Authority:

	Balance 1/1/2011	Additions	Disposition	Balance 12/31/2011
Water Distribution System	\$ 31,579,137	\$ 363,801	\$ (4,449)	\$ 31,938,489
Office Equipment	236,320	1,363	-	237,683
Operating Equipment	74,151	-	-	74,151
Auto and Truck	143,724	-	(20,547)	123,177
Total Property and Equipment	32,033,332	365,164	(24,996)	32,373,500
Accum Depreciation	(7,893,056)	(506,212)	20,547	(8,378,721)
Net Property & Equipment	<u>\$ 24,140,276</u>	<u>\$ (141,048)</u>	<u>\$ (4,449)</u>	<u>\$ 23,994,779</u>

Millcreek Township Sewer Authority:

	Balance 1/1/2011	Additions	Dispositions	Balance 12/31/2011
Operating equipment	\$ 184,262	\$ 21,497	\$ -	\$ 205,760
Office equipment	159,592	2,725	-	162,317
Total Property & Equipment	343,854	24,222	-	368,077
Accumulated Depreciation	(131,644)	(29,043)	-	(160,687)
Net Property & Equipment	<u>\$ 212,210</u>	<u>\$ (4,821)</u>	<u>\$ -</u>	<u>\$ 207,390</u>

NOTE 4 - TAXES LEVIED AND RECEIVABLE:

A. Real Estate Taxes:

Based upon assessed valuations provided by the County, the Township, through the elected tax collector, bills and collects its real estate taxes. The schedule for real estate taxes which were levied for 2011 is as follows:

March 1	-	levy date
March 1 - April 30	-	2% discount period
May 1 - June 30	-	face payment period
July 1 - Settlement Date	-	5% penalty period
Settlement Date	-	lien date

The Township tax rate for all purposes in 2011 was 2.4594 mills (\$24.594 per \$1,000 assessed valuation) which consisted of the following:

	<u>Mills</u>
General Purposes	2.2786
Permanent Public Improvements	.1808
	<u>2.4594</u>

Real estate taxes receivable of \$496,257 as of December 31, 2011 has been determined from records supplied by the elected tax collector and the Erie County Tax Claims Office. The amount of real estate taxes receivable so determined has been recorded on the balance sheet as an asset, offset by deferred revenue of \$374,939 which represents real estate taxes which will not be available to pay current liabilities.

B. Earned Income Taxes:

The Township's tax rate on earned income in 2011 was .5%.

The amount of earned income taxes receivable as of December 31, 2011 is \$713,922. This is the amount of Earned Income Tax, which will be available to pay current liabilities, and consists of claims for resident taxes outstanding at December 31, 2011.

C. Other Taxes:

Other taxes include realty transfer tax and occupational privilege tax. The Township's tax rate on these taxes in 2011 is as follows:

<u>Tax</u>	<u>Rate</u>
Realty Transfer Tax	.5%
Local Services Tax	\$52 per capita

The amount of taxes receivable as of December 31, 2011 is \$1,515,795. This is the amount that will be available to pay current liabilities, and consists of the following:

Real Estate Tax	\$ 496,257
Earned Income Tax	713,922
Realty Transfer Tax	70,782
Local Services Tax	234,834
	<u>\$ 1,515,795</u>

NOTE 5 - ASSESSMENTS RECEIVABLE:

Water and street light assessments receivable in the amount of \$55,374 as of December 31, 2011 have been determined from records maintained by the Township Lien Department. The amount of assessments so determined has been recorded on the balance sheet of the General Fund as an asset, offset by deferred revenue in the fund financial statements of \$54,374 which represents assessments, which will not be available to pay current liabilities.

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The individual interfund receivables and payables of the Township as of December 31, 2011 are shown as follows:

Due to General Fund	
Perf. & Surety Fund	\$ 40,430
Sewer Revenue Fund	184,714
	<u>225,144</u>
Due from General Fund	
Tax Escrow Fund	(72,368)
Net Interfund Receivable	<u>\$ 152,776</u>

As of December 31, 2011 the following amounts were due the primary government from the component units:

	<u>Water Auth.</u>	<u>Sewer Auth.</u>	<u>Total</u>
Current	<u>\$ 37,622</u>	<u>\$ 63,439</u>	<u>\$ 101,061</u>

Operating transfers in the amount of \$17,408 were made by the Sewer Revenue Fund to the Township's general fund during the years ended December 31, 2011 and 2010, respectively. The 2011 and 2010 transfers provided for the reimbursement of the Township's general fund for the sanitary sewer system related debt service.

NOTE 7 - LONG TERM DEBT:

The original loan date, interest rate and original issuance amount for each of the Township's loans are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
Governmental Activities:			
Pennvest	1998	1.56%-3.07%	\$ 571,447
Kearsarge Fire Department Loan	2009	4.19%	\$ 283,000
Component Units:			
Millcreek Township Water Authority			
Refunding Bonds	2003	2.00%-3.05%	\$ 5,105,000
Refunding Bonds	2001	3.35%-4.70%	\$ 5,445,000
Pennvest	2000	1.62%-3.24%	\$ 661,634
Construction Note	2009	4.24%	\$ 1,000,000
Refunding Bonds	2011	0.60%-5.35%	\$ 4,715,000
Millcreek Township Sewer Authority			
Refunding Bonds	2004	1.60%-4.46%	\$ 9,895,000
Refunding Bonds	2002	1.55%-4.05%	\$ 3,700,000
Construction Note	2009	4.24%	\$ 700,000
Refunding Bonds	2011	1.00%-4.50%	\$ 13,150,000

A schedule of changes in long-term debt of the Township during 2011 is as follows:

	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/2011</u>	<u>Due in One Year</u>
Governmental Activities:					
Pennvest	\$ 261,053		\$ 29,940	\$ 231,113	\$ 30,872
Kearsarge Fire Department Loan	255,614		24,430	231,184	
Total Bonds and Notes	516,667	-	54,370	462,297	30,872
Compensated absences	1,396,712	62	30,722	1,366,052	136,605
Post-employment benefits	4,016,870	1,307,318		5,324,188	
Total Governmental Debt	\$ 5,930,249	\$ 1,307,380	\$ 85,092	\$ 7,152,537	\$ 167,477

Component Units:	Balance			Balance 12/31/2011	Due in One Year
	1/1/2011	Additions	Payments		
Millcreek Township Water Authority					
Refunding Bonds, 2003	\$ 1,665,000	\$ -	\$ 1,665,000	\$ -	\$ -
Refunding Bonds, 2001	2,255,000		2,255,000	-	-
Pennvest, 2000	370,108		31,863	338,245	32,909
Revenue Note, 2009	904,007		904,007	-	-
Refunding Bonds, 2011	-	4,715,000	150,000	4,565,000	115,000
	<u>5,194,115</u>	<u>4,715,000</u>	<u>5,005,870</u>	<u>4,903,245</u>	<u>147,909</u>
Millcreek Township Sewer Authority					
Refunding Bonds, Series 2002	805,000	-	805,000	-	-
Refunding Bonds, Series 2004	8,430,000	-	8,430,000	-	-
Construction Note, 2009	689,244	-	689,244	-	-
Refunding Bonds, Series 2011	-	13,150,000	500,000	12,650,000	595,000
	<u>9,924,244</u>	<u>13,150,000</u>	<u>10,424,244</u>	<u>12,650,000</u>	<u>595,000</u>
Total Component Unit of Debt	<u>\$ 15,118,359</u>	<u>\$ 17,865,000</u>	<u>\$ 15,430,114</u>	<u>\$ 17,553,245</u>	<u>\$ 742,909</u>
Total Township Debt	<u>\$ 21,048,608</u>	<u>\$ 19,172,380</u>	<u>\$ 15,515,206</u>	<u>\$ 24,705,782</u>	<u>\$ 910,386</u>

The Township borrowed \$283,000 from First National Bank on a general obligation note dated October 6, 2009, to provide funds for the Kearsarge Fire Department to purchase equipment. The Fire Department is obligated to make all debt service payments on this loan. This loan is payable in 120 monthly payments of \$2,890 including interest at 4.19%. The balance of the loan at December 31, 2011 was \$231,184.

All debt, except the Kearsarge Fire Department debt is secured by the full faith and credit of the Township. The General Obligation Note, Pennvest loan, and renovation loans are to be repaid from general property taxes levied on all property located within the Township. The Fire Department loan is secured by the vehicle purchased. An accounts receivable equivalent to the balance of the Fire Department debt is recorded on the government-wide financial statements at December 31, 2011.

The annual debt service requirements to maturity, including principal and interest, on bonds and notes payable as of December 31, 2011, are as follows:

Year Ending December 31,	Primary Government			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 30,872	\$ 6,665	\$ 37,537	\$ 742,909	\$ 628,840	\$ 1,371,749
2013	31,833	5,704	37,537	753,991	620,543	1,374,534
2014	32,825	4,712	37,537	770,107	605,297	1,375,404
2015	33,847	3,690	37,537	786,261	585,203	1,371,464
2016	34,901	2,636	37,537	807,452	568,832	1,376,284
2017	36,201	1,336	37,537	828,683	547,738	1,376,421
2018	30,705	436	31,141	844,954	525,733	1,370,687
2019	-	-	-	871,266	501,713	1,372,979
2020	-	-	-	902,622	474,592	1,377,214
2021-2034	-	-	-	10,245,000	2,726,363	12,971,363
	<u>\$ 231,184</u>	<u>\$ 25,179</u>	<u>\$ 256,363</u>	<u>\$ 17,553,245</u>	<u>\$ 7,784,854</u>	<u>\$ 25,338,099</u>

NOTE 8 – PENSION PLANS:

A. Plan Descriptions:

The Township sponsors two contributory single employer defined benefit pension plans through Mockenhaupt Benefits Group, covering substantially all full-time employees. Eligibility for participation in the Police Pension Plan and the General Employees Pension Plan occurs at date of hire. 100% vesting occurs in the Police Pension Plan after completion of twelve years of service. 100% vesting occurs in the General Employees Pension Plan upon termination if ineligible for any other benefit from the Plan for participants hired before January 1, 1991. For participants hired on or after January 1, 1991, 100% vesting occurs after completion of ten years of service. Normal retirement under the Police Pension Plan is the later of age 50 or completion of 25 years of service. Participants hired prior to December, 1965 may retire upon attainment of age 60 and completion of 20 years of service if earlier. Normal retirement under the General Employees Pension Plan is later of age 62 or the completion of ten years of service.

At December 31, 2011 participants in the Plans are as follows:

	Police	General Employees
Active employees	55	104
Retirees and beneficiaries	50	47
	<u>105</u>	<u>151</u>

B. Benefits:

The Police Pension Plan provides for a monthly benefit for normal retirement equal to 50% of the average monthly salary averaged over the final 36 months of employment, plus a service increment of \$20 per year of service in excess of 25 years, up to a maximum increment of \$100 per month. In addition, a retiree will receive a cost of living adjustment on each October 1. The total of all increases may not exceed 30% of the retiree's original benefit nor may the sum of the retiree's benefit and all increases exceed 75% of salary used to compute the original benefit. The General Employees Pension Plan provides for a monthly benefit equal to 2.5% of final average earnings multiplied by the number of years of service, up to a maximum of 20 years.

C. Contributions:

Covered employees, under the General Employees Pension Plan, were required to contribute 4% of monthly compensation to the Plan during 2011. All general employees with 20 years of service were required to contribute 2% of compensation to the Plan. Covered employees, under the Police Pension Plan, were required to contribute 5% of monthly compensation to the Plan during 2011. The Township is required to contribute the remaining amounts necessary, as determined by the actuary, to pay benefits when due.

The Plans have been established by Township ordinance with the authority for municipal contributions required by Act 205 of the Pennsylvania Legislature.

D. Annual Pension Costs:

Police

	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
Year Ended December 31,			
2005	\$ 351,349	\$ 351,349	100%
2006	453,859	453,859	100%
2007	454,327	454,327	100%
2009	479,766	469,613	98%
2011	729,333	718,419	99%

Employees

	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
Year Ended December 31,			
2005	\$ 319,018	\$ 319,018	100%
2006	414,855	414,855	100%
2007	427,671	427,671	100%
2009	609,218	609,218	100%
2011	609,218	609,218	100%

The actuarial assumptions for the December 31, 2010 actuarial valuations include the following:

	<u>Police</u>	<u>Employees</u>
Valuation Date	1/1/2011	1/1/2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	14 years	12 years
Asset valuation method	4-year smoothing	4-year smoothing
Actuarial Assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	5.00%	4.50%
Underlying inflation rate	3.00%	3.00%

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

Plan Descriptions

The Township sponsors two single employer defined benefit healthcare plans. The Police plan provides lifetime medical, prescription drug, dental and visions insurance for eligible retirees and their spouses through the township's group health insurance plan, which covers both active and retired members. Police retirees are also provided a \$10,000 life insurance benefit until age 70 then \$5,000 thereafter. The General Employee plan provides medical and prescription drug coverage expenses for the retiree and dependents from the retiree's age 62 until Medicare eligibility assumed to be age 65. General Employee retirees are provided \$20,000 of life insurance until age 70, then \$5,000 thereafter. The Police and General Employee Retiree Health Plans do not issue a publicly available financial report.

Funding Policy

Contribution requirements are negotiated between the Township and union representatives. GASB Statement #45 does not mandate the prefunding of postemployment benefits liability. Currently the Township contributes 100% of the cost of the healthcare plans. The Plan is financed on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the normal cost and an amortization payment towards unfunded actuarial accrued liability. GASB #45 requires that the period of amortization be at most 30 years, which is the period used by the Township. The following table shows the components of the township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the township's net OPEB obligation to the Retiree healthcare Plans;

Normal cost	\$ 678,363
Amortization of unfunded	1,336,200
Annual required contribution	<u>\$ 2,014,563</u>
Annual required contribution	\$ 2,014,563
Interest and adjustments to ARC	<u>(66,733)</u>
Annual OPEB Cost	1,947,830
Projected Contributions made	<u>(640,512)</u>
Increase in Net OPEB Obligation	1,307,318
Net OPEB Obligation - beginning of year	<u>4,016,870</u>
Net OPEB Obligation - end of year	<u>\$ 5,324,188</u>

Funded Status and Funding Progress

As of December 31, 2010, the actuarial accrued liability for benefits was \$21,765,207, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,969,085, and the ratio of unfunded actuarial accrued liability to the covered payroll was 218%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

Actuarial valuation date	1/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Interest rate	4.5%

Retiring age for active employees –

Police (Years of Service)			General	
Age	25	26 or more	Age	Rate
50	40%	40%	55-59	2%
51-54	40%	20%	60-61	10%
55-59	50%	25%	62	40%
60-61	50%	50%	63-65	30%
62 and over	100%	100%	66-69	20%
			70+	100%

Mortality: RP-2000 Combined Healthy Mortality Table, with blue collar adjustment

Marital Status: 90% males elect husband/wife coverage and 10% elect individual coverage; 60% of females elect husband/wife coverage and 40% elect individual coverage. Female spouses are assumed to be three years younger than male spouse.

Withdrawal From Service: Table T-2 from Actuary's Pension Handbook

Healthcare Cost Trend Rate

The expected rate of increase in healthcare insurance premiums was based on projections by Mockenhaupt Benefits Group. A declining scale starting with an of 8% increase from 2011 with the rate decreasing by .5% annually to 5% for 2017 and later, except for the Dental and Vision premiums for the police. For these, they assumed a constant increase of 4% per year.

For many benefits, age tends to be a significant factor in average claims cost per person. The average amount of retiree claims will tend to be slightly higher than the average amount of active claims. The average will be higher than if only active employees were covered but lower than if only retirees were covered. Therefore the rates include an implicit subsidy for the retirees. GASB #45 requires recognition of this subsidy where significant. Age is a significant factor in the cost of medical care and prescription drug coverage for Millcreek Township. Accordingly, age-adjusted per person costs have been estimated. The following table represents the cost of the PPO medical coverage:

Age Group	Age-Adjusted Annual Cost
Children	\$ 2,993
45	\$ 5,857
50	\$ 6,889
55	\$ 8,103
60	\$ 9,671
64	\$ 10,885
65	\$ 4,484
70	\$ 5,199
75	\$ 5,582
80	\$ 6,494

NOTE 10 - PUBLIC EMPLOYEES DEFERRED COMPENSATION FUND:

The Township maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees and eligible former employees. The assets of the Plan are held by insurance carriers and remain the property of the Township until they become due and payable to the Plan participants under the terms of the Plan. The Township has recorded the assets of the Plan and the corresponding liability in the combined balance sheets. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$3,367,309 and \$3,402,567 at December 31, 2011 and 2010, respectively.

The Sewer Authority maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees. The assets of the Plan are held by insurance carriers and remain the property of the Sewer Authority until they become due and payable to the Plan participants under the terms of the Plan. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$265,639 and \$245,896 at December 31, 2011 and 2010, respectively.

NOTE 11 – YEAR 2012 BUDGET:

A summary of the 2012 General, State and Sinking Fund budgets follows:

	2012 Budgets			
	General & Capital Projects Funds	State Fund	Sinking Fund	Combined Total
	Budget Expenditures	\$ 23,971,470	\$ 1,161,285	\$ 37,537
Budget Revenues	21,580,195	1,168,785	4,500	22,753,480
	(2,391,275)	7,500	(33,037)	(2,416,812)
December 31, 2011 Assigned Fund Balances	2,663,057	127,736	358,041	3,148,834
	<u>\$ 271,782</u>	<u>\$ 135,236</u>	<u>\$ 325,004</u>	<u>\$ 732,022</u>

NOTE 12 - RELATED PARTY TRANSACTIONS:

A. Lease Rentals Payable in Future Years:

The Township entered into a lease dated December 1, 1992 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1992, Guaranteed Sewer Revenue Bonds dated December 15, 1992 in the principal amount of \$5,000,000 which were issued for the purpose of constructing Sewer System improvements.

The Township entered into the First Supplemental Agreement of Lease dated as of November 15, 1993 with the Sewer Authority in connection with the Sewer Authority's issuance of the Series of 1993 Guaranteed Sewer Refunding Bonds in the principal amount of \$5,230,000, which were dated as of November 15, 1993. All of the provisions of the agreement of lease between the Sewer Authority and the Township dated December 1, 1992 are ratified and reaffirmed by the Lease dated as of November 15, 1993 and all the provisions thereof apply as well to the 1993 bonds.

The Township entered into the Second Supplemental Agreement of Lease dated as of April 15, 1997 with the Sewer Authority in connection with the Authority's issuance of 1997 Guaranteed Sewer Revenue Bonds in the principal amount of \$4,000,000 which were dated as of April 15, 1997. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992 and November 15, 1993 are ratified and reaffirmed by the lease dated April 15, 1997 and all the provisions thereof apply as well to the 1997 bonds.

The Township entered into the Third Supplemental Agreement of Lease dated as of June 1, 1998 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 1998 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,525,000 which were dated as of June 1, 1998. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993 and April 15, 1997 are ratified and reaffirmed by the lease dated June 1, 1998 and all the provisions thereof apply as well to the 1998 bonds.

The Township entered into the Fourth Supplemental Agreement of Lease dated as of July 15, 2002 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2002 Guaranteed Sewer Revenue Refunding Bonds in the principal amount of \$3,700,000 which were dated as of July 15, 2002. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, and June 1, 1998 are ratified and reaffirmed by the lease dated July 15, 2002 and all the provisions thereof apply as well to the 2002 bonds.

The Township entered into the Fifth Supplemental Agreement of Lease dated as of October 15, 2004 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2004 Guaranteed Sewer Revenue Bonds Series A and B in the principal amount of \$9,895,000 which were dated as of October 15, 2004. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, and July 15, 2002 are ratified and reaffirmed by the lease dated October 15, 2004 and all the provisions thereof apply as well to the 2004 bonds.

Millcreek Township entered into the Sixth Supplemental Agreement of Lease dated as of October 23, 2009 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2009 Guaranteed Sewer Revenue Note in the principal amount of \$700,000 which were dated as of October 23, 2009. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002 and October 15, 2004 are ratified and reaffirmed by the lease dated October 23, 2009 and all of the provisions thereof apply as well to the 2009 note.

Millcreek Township entered into the Seventh Supplemental Agreement of Lease dated as of June 15, 2011 with the Millcreek Township Sewer Authority in connection with the Authority's issuance of 2011 Guaranteed Sewer Revenue Bonds in the principal amount of \$13,150,000 which were dated as of June 1, 2011. All of the provisions of the agreements of lease between the Authority and the Township dated December 1, 1992, November 15, 1993, April 15, 1997, June 1, 1998, July 15, 2002, October 15, 2004 and October 23, 2009 are ratified and reaffirmed by the lease dated June 1, 2011 and all of the provisions thereof apply as well to the 2011 bonds.

The Township, lessee, is obligated to pay minimum annual lease rentals to the Millcreek Township Sewer Authority, lessor, in an amount equal to the annual debt service requirements of the outstanding bond issues.

The following schedule sets forth the remaining minimum annual lease rental payments required to be made by the Township to the Authority under the lease agreements:

Year	2011		Total
	Principal	Interest	
2012	\$ 595,000	\$ 429,533	\$ 1,024,533
2013	600,000	423,583	1,023,583
2014	615,000	411,133	1,026,133
2015	630,000	394,233	1,024,233
2016	645,000	381,633	1,026,633
2017	660,000	364,833	1,024,833
2018	675,000	347,673	1,022,673
2019	695,000	328,866	1,023,866
2020	720,000	307,556	1,027,556
2021	740,000	283,344	1,023,344
2022	770,000	257,288	1,027,288
2023-28	5,305,000	844,801	6,149,801
	<u>\$ 12,650,000</u>	<u>\$ 4,774,476</u>	<u>\$ 17,424,476</u>

The outstanding \$12,650,000 principal amount of the Millcreek Township Sewer Authority, Series 2011 Guaranteed Sewer Revenue Refunding Bonds are shown as a liability of the Sewer Revenue Fund of Millcreek Township, at December 31, 2011 as lease rentals payable. The current maturities of the bonds are classified as current liabilities of the Sewer Revenue Fund.

B. Sewer System Management Agreement:

The Township and the Sewer Authority entered into a Sewer System Management Agreement dated November 15, 1990. This agreement was modified by the parties effective September 21, 2004 in connection with the agreement of lease entered into by the Township and Sewer Authority.

The Agreement provides, in part, that the Sewer Authority will continue to be responsible for planning, designing, financing and constructing all major renewals and replacements and new sewer extensions to the sanitary sewer system of Millcreek Township.

The Agreement also provides, in part, that the Township will continue to operate and maintain the sewer system and collect sewer use revenues for the sewer system.

The Agreement also provides that the Township will pay to the Sewer Authority an annual amount equal to one percent (1%) of the valuation of the sewer system as annually reported by the Sewer Revenue Fund. These funds shall be used for costs related to repairs and improvements to the sewer system. In accordance with this provision, the Sewer Revenue Fund of Millcreek Township paid \$669,840 and \$665,821 to the Sewer Authority during the years 2011 and 2010, respectively. During the year ended December 31, 2011, the Sewer Revenue Fund of Millcreek Township will pay \$680,751 to the Sewer Authority.

This Agreement further provides that the Township is responsible for maintaining the Sewer Authority's Construction and Administrative fund at a balance of \$2,352,800 as adjusted annually by the Engineering News Record Construction Cost Index for Twenty Cities. The Township is required to replenish any deficiency in this fund within twenty-four (24) months of notice to the Township by the Authority. There was no deficiency in this fund at December 31, 2011.

C. Operating Expenditures:

The Sewer Authority pays reimbursements to the Township for employee benefits, rent, and miscellaneous expenses. The total amount paid as reimbursements during the year ended December 31, 2011 was \$288,080.

The Water Authority pays reimbursements to the Township for salaries, payroll taxes, employee benefits and miscellaneous expenses. The total amount paid as reimbursements during the year ended December 31, 2011 was \$158,103.

The Water Authority pays reimbursements to the Sewer Revenue Fund for salaries, payroll taxes and employee benefits. The total amount paid as reimbursements during the year ended December 31, 2011 was \$105,042.

The Water Authority pays monthly reimbursements to the Sewer Authority for salaries and office expenses. The total amount paid as reimbursements during the year ended December 31, 2011 was \$261,666.

NOTE 13 - ECONOMIC DEPENDENCY:

The Water Authority purchases approximately 95% of the water sold to customers from the City of Erie Water Authority. The remaining 5% is obtained from a well owned by the Water Authority.

NOTE 14 - COMPONENT UNITS:

The following presents condensed balance sheets for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained at their administrative office.

December 31, 2011

	Water Authority	Sewer Authority	Total
Assets:			
Cash	\$ 2,390,544	\$ 5,332,607	\$ 7,723,151
Accrued interest	32,731		32,731
Assessments receivable	134,918	771,665	906,583
Other accounts receivable	824,234	8,149	832,383
Restricted assets	178,198	2,882,030	3,060,228
Lease rentals receivables		12,650,000	12,650,000
Bond issue costs – net	168,601		168,601
Property and equipment – net	23,994,779	207,390	24,202,169
Total Assets	\$ 27,724,005	\$ 21,851,841	\$ 49,575,846

December 31, 2011

	Water Authority	Sewer Authority	Total
Liabilities and Fund Equities:			
Liabilities:			
Accounts payable	\$ 242,053	\$ 233,322	\$ 475,375
Accrued interest payable	31,474	-	31,474
Project deposits	7,200	65,000	72,200
Current portion of long-term debt	147,909	595,000	742,909
Deferred revenues	-	1,804,554	1,804,554
Long-term debt payable in future years	4,308,803	11,925,117	16,233,920
Post-employment benefits	36,208	46,083	82,291
Future compensation due to employees	47,798	265,639	313,437
Total Liabilities	4,821,445	14,934,715	19,756,160
Net Assets:			
Invested in Capital Assets, Net of Related Debt	19,091,533	229,335	19,320,868
Restricted for Capital Activity and Debt Service	3	2,616,391	2,616,394
Unrestricted	3,811,024	4,071,400	7,882,424
Total Net Assets	22,902,560	6,917,126	29,819,686
Total Liabilities and Net Assets	\$ 27,724,005	\$ 21,851,841	\$ 49,575,846

NOTE 15 - COMMUNITY DEVELOPMENT BLOCK GRANT:

Millcreek Township is the grantee of a U.S. Department of Housing and Urban Development Community Block Grant (CDBG), which is being used to fund various approved projects. The Grant is being administered by Erie County. Grant revenue and expenditures in the amount of \$421,843 are included in the revenues and expenditures of Millcreek Township.

NOTE 16 – OTHER INFORMATION:

A. Lease Commitments

The Millcreek Township Sewer and Water Authorities lease their office from Millcreek Township. The terms of the current lease is ten years expiring on September 30, 2008. Under the terms of the current lease the Authorities are required to pay \$61,124 annually in rent. The Authorities are also required to pay a utility fee of \$7,054 annually, which is adjusted every three years beginning on January 1, 2005. The Authorities are allocating the cost of this as 2/3 for Millcreek Township Sewer Authority and 1/3 for the Millcreek Township Water Authority. The total lease payments made by the Sewer Authority for the years ended December 31, 2011 and 2010 were \$46,576 per year. The total lease payments made by the Water Authority for the years ended December 31, 2011 and 2010 were \$15,525 per year. The Township and Authorities have not signed a new contract for 2012 yet. The 2012 rent will be the same as 2011 until a new agreement is reached.

B. Risk Management:

The Township's Employee Health Benefit Plan is a modified self-insurance program for insuring hospitalization and medical costs. The Township is limited to losses of \$85,000 annually per covered person. The Township is further limited by an aggregate stop loss of \$3,665,106 for the year ended December 31, 2011. The Plan is fully funded by Township contributions and covers all full-time employees and eligible dependents. At December 31, 2011 there were no material claim liabilities.

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; and natural disasters. The Authority is insured through commercial insurance for risk of loss. Millcreek Township did not have settled claims that exceeded the Authority's commercial insurance coverage in any of the past three years.

The Authority's deductibles and maximum coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General liability	\$1,000	\$2,000,000
Building/ Equipment	\$1,000	\$37,876,417
Automobile	\$500/\$1,000	\$1,000,000

C. Commitments and Contingencies:

1. Grant Programs:

The Township participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Township is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs.

2. *Contingent Liabilities:*

There are various claims and suits pending against the Township that arise in the normal course of the Township's activities. In the opinion of counsel and Township management, the ultimate disposition of these various claims and suits will have no material effect on the financial position of the Township.

D. Millcreek Township Water Authority Agreement with the Fairview Township Water Authority:

The Millcreek Township Water Authority acquired the operating assets of the Erie Division of the Pennsylvania Water Company on August 1, 1985.

The Millcreek Township Water Authority conveyed the Fairview Township portion of the water system to the Fairview Township Water Authority by bill of sale dated November 15, 1985 for \$1,240,200. In addition, the Fairview Township Water Authority agreed to be subject to all terms, conditions and encumbrances required by the Purchase Agreement, the Indenture and the issuance of the 1985 Bonds by the Millcreek Township Water Authority.

The Authority agreed to pay Fairview Township Water Authority its 23.4% proportionate share of the interest income on the Bond Reserve, Maintenance Reserve and Capital Reserve Funds.

The Fairview Township Water Authority has agreed to pay its proportionate share of the cost of debt service requirements on the 2003 Guaranteed Water Revenue Note and the 2001 Bonds which was established at 5.25% and 25.65% respectively.

The amount shown as due from the Fairview Township Water Authority at December 31, 2011 is comprised of the following:

Balance at January 1, 2011	\$ 258,646
<u>2011 Transactions</u>	
2011 Debt Service payments received from Fairview Township Water Authority	(171,345)
23.4% of 2011 interest income of \$1 on restricted funds of 2001 Guaranteed Water Revenue Bonds	-
25.65% of 2011 interest expense of \$19,289 on the 2001 Guaranteed Water Revenue Bonds	4,948
5.25% of 2011 interest expense of \$9,148 on the 2003 Guaranteed Water Revenue Refunding Bonds	480
2011 share of amortization of 2001 and 2003 bond issuance costs, discount and costs of refunding	21,399
2011 Bond closing	<u>81,900</u>
Balance at December 31, 2011	<u><u>\$ 196,028</u></u>

E. Millcreek Township Water Authority Agreement with Summit Township Water Authority:

The Water Authority constructed a water line along Peach Street between Davis Avenue and the Summit Township line which cost \$239,862. This water line is jointly used by Millcreek and Summit Townships. The Summit Township Water Authority agreed to pay 61.5% or \$147,515 of the cost of the jointly used facilities.

The Summit Township Water Authority's share of the debt service on the Bonds and Pennvest loan is based on the percentage of Summit Township Water Authority's cost of the jointly used facilities in relationship to the total Bond Issue and Pennvest loan. The Summit Township Water Authority's share of the debt service on the 2003 Bonds and the Pennvest loan was established at .17%. Their share of the debt service on the 2001 Bonds was established at .83%.

The amount shown as due from the Summit Township Water Authority at December 31, 2011 is comprised of the following:

Balance at January 1, 2011	\$ 2,976
<u>2011 Transactions</u>	
2011 Debt Service payments received from Summit Township Water Authority	(5,135)
.83% of 2011 interest expense of \$19,289 on the 2001 Guaranteed Water Revenue Bonds	160
.17% of 2011 interest expense of \$9,148 on the 2003 Guaranteed Water Revenue Bonds	16
Adjustment to actual	<u>1,983</u>
Balance at December 31, 2011	<u><u>\$ -</u></u>

F. Sewage Treatment Charges:

The Sewer Revenue Fund pays its sewage treatment charges throughout the year based on an annual estimate determined by the City of Erie. At the conclusion of the year, the City of Erie prepares an annual statement of actual sewage treatment charges. The difference between the estimated and actual operations charges represents either a liability payable to the City of Erie, or a credit due the Sewer Revenue Fund, to be applied against the estimated charges for the succeeding year. The excess of actual over estimated sewage treatment charges for 2011 was \$391,079. The estimated 2012 sewage treatment charges are \$5,232,001. The 2011 and 2010 sewage treatment charges are summarized as follows:

	<u>2011</u>	<u>2010</u>
Operations	\$ 4,265,993	\$ 4,105,222
Act 537 Debt Service	<u>795,038</u>	<u>800,442</u>
	<u><u>\$ 5,061,031</u></u>	<u><u>\$ 4,905,664</u></u>

G. Sewage Transportation Charges:

The Sewer Revenue Fund pays sewage transportation charges to the City of Erie based on an agreement concluded in 1992 between Millcreek Township and the City of Erie which was effective September 1, 1991. Sewage Transportation charges in the amounts of \$196,210 and \$306,127 have been charged to Sewer Revenue Fund operations for the years ended December 31, 2011 and 2010, respectively. The excess of actual over estimated regular and special sewage transportation charges was \$71,499. The estimated 2012 sewage transportation charges are \$295,847.

NOTE 17 – SUBSEQUENT EVENTS

The Millcreek Township Sewer Revenue Fund raised the sewer rate on January 1, 2012 to \$84 per quarter. This represents a 5% increase.

Millcreek Township raised real estate taxes for 2012 to 2.9594 mills. This represents a 0.5000 mill increase.

These financial statements considered subsequent events through April 20, 2012, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property and other Taxes	\$ 14,966,680	\$ 14,966,680	\$ 15,777,763	\$ 811,083
Licenses and Permits	967,000	967,000	1,015,644	48,644
Fines	250,000	250,000	229,296	(20,704)
Intergovernmental	2,014,060	2,014,060	3,213,501	1,199,441
Charges for Services	165,000	165,000	175,314	10,314
Special Assessments	520,000	520,000	574,434	54,434
Rentals	132,710	132,710	147,654	14,944
Investment Income	44,630	44,630	40,151	(4,479)
Miscellaneous	185,735	185,735	240,440	54,705
Total Revenues	<u>19,245,815</u>	<u>19,245,815</u>	<u>21,414,197</u>	<u>2,168,382</u>
<u>Expenditures:</u>				
General Government	3,197,062	3,197,062	3,444,821	(247,759)
Public Safety	10,930,622	10,930,622	11,485,856	(555,234)
Highways	5,695,546	5,695,546	4,955,143	740,403
Parks and Recreation	1,088,580	1,088,580	1,017,169	71,411
Community	44,000	44,000	44,000	-
Miscellaneous	510,650	510,650	488,085	22,565
Total Expenditures	<u>21,466,460</u>	<u>21,466,460</u>	<u>21,435,074</u>	<u>31,386</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(2,220,645)</u>	<u>(2,220,645)</u>	<u>(20,877)</u>	<u>2,199,768</u>
<u>Other Financing Sources</u>				
Sale of Fixed Assets	96,200	96,200	97,737	1,537
Transfers In	17,410	17,410	17,408	(2)
Total Other Financing Sources	<u>113,610</u>	<u>113,610</u>	<u>115,145</u>	<u>1,535</u>
Net Change in Fund Balances	<u>\$ (2,107,035)</u>	<u>\$ (2,107,035)</u>	<u>94,268</u>	<u>\$ 2,201,303</u>
<u>Fund Balances - Beginning of Year</u>			<u>2,425,298</u>	
<u>Fund Balances - End of Year</u>			<u>\$ 2,519,566</u>	

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property taxes	\$ 546,220	\$ 546,220	\$ 546,220	\$ -
<u>Expenditures:</u>				
Highways	546,220	546,220	493,015	53,205
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>-</u>	<u>-</u>	<u>53,205</u>	<u>53,205</u>
<u>Net Change in Fund Balance</u>	<u>\$ -</u>	<u>\$ -</u>	<u>53,205</u>	<u>\$ 53,205</u>
<u>Fund Balance - Beginning of Year</u>			<u>346,868</u>	
<u>Fund Balance - End of Year</u>			<u>\$ 400,073</u>	

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STATE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$ 1,099,575	\$ 1,099,575	\$ 1,126,320	\$ 26,745
Investment earnings	<u>7,370</u>	<u>7,370</u>	<u>7,517</u>	<u>147</u>
Total Revenues	<u>1,106,945</u>	<u>1,106,945</u>	<u>1,133,837</u>	<u>26,892</u>
<u>Expenditures:</u>				
Highways	<u>1,310,575</u>	<u>1,310,575</u>	<u>1,237,373</u>	<u>73,202</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>(203,630)</u>	<u>(203,630)</u>	<u>(103,536)</u>	<u>100,094</u>
<u>Net Change in Fund Balance</u>	<u>\$ (203,630)</u>	<u>\$ (203,630)</u>	<u>(103,536)</u>	<u>\$ 100,094</u>
<u>Fund Balance - Beginning of Year</u>			<u>231,272</u>	
<u>Fund Balance - End of Year</u>			<u>\$ 127,736</u>	

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SINKING FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	4,762	4,762
Total Revenues	-	-	4,762	4,762
<u>Expenditures:</u>				
Debt Service	37,537	37,537	37,537	-
<u>Excess of Revenues Over (Under) Expenditures</u>	(37,537)	(37,537)	(32,775)	4,762
<u>Net Change in Fund Balance</u>	<u>\$ (37,537)</u>	<u>\$ (37,537)</u>	(32,775)	<u>\$ 4,762</u>
<u>Fund Balance - Beginning of Year</u>			390,816	
<u>Fund Balance - End of Year</u>			<u>\$ 358,041</u>	

MILLCREEK TOWNSHIP
SCHEDULE OF PENSION PLANS' FUNDING PROGRESS
DECEMBER 31, 2011

Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as a Percentage of Covered Payroll ([b-a]/c)
2011	\$ 23,585,452	\$ 29,284,056	\$ (5,698,604)	80.5%	\$ 4,610,481	123.60%
2009	22,879,821	26,215,129	(3,335,308)	87.3%	6,205,787	53.75%
2007	23,788,770	23,919,527	(130,757)	99.5%	3,326,344	3.93%
2005	20,041,419	20,936,134	(894,715)	95.7%	3,016,169	29.66%
2003	20,568,208	20,446,677	121,531	100.6%	3,545,645	N/A
2001	20,808,353	17,558,136	3,250,217	118.5%	3,315,590	N/A
1999	19,266,095	15,521,963	3,744,132	124.1%	3,065,793	N/A

Employees Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as a Percentage of Covered Payroll ([b-a]/c)
2011	\$ 18,841,476	\$ 23,788,708	\$ (4,947,232)	79.2%	\$ 6,233,143	79.37%
2009	16,881,530	18,983,094	(2,101,564)	88.9%	3,664,246	57.35%
2007	16,269,518	16,835,729	(566,211)	96.6%	5,704,372	9.93%
2005	13,563,484	13,612,404	(48,920)	99.6%	5,144,442	0.95%
2003	13,027,780	12,110,884	916,896	107.6%	5,023,967	N/A
2001	12,584,704	11,531,555	1,053,149	109.1%	4,479,688	N/A
1999	11,250,719	10,162,099	1,088,620	110.7%	4,069,191	N/A

MILLCREEK TOWNSHIP
SCHEDULE OF RETIREE HEALTH CARE PLANS FUNDING PROGRESS
DECEMBER 31, 2011

Police Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
2011	\$ -	\$ 18,895,602	\$ 18,895,602	0.0%	\$ 4,585,303	412.09%
2009	\$ -	\$ 18,049,181	\$ 18,049,181	0.0%	\$ 3,664,246	492.58%
2007	\$ -	\$ 16,453,437	\$ 16,453,437	0.0%	\$ 4,127,902	398.59%

Employees Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (ALL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
2011	\$ -	\$ 2,869,605	\$ 2,869,605	0.0%	\$ 5,383,782	53.30%
2009	\$ -	\$ 2,821,500	\$ 2,821,500	0.0%	\$ 5,422,059	52.04%
2007	\$ -	\$ 2,552,698	\$ 2,552,698	0.0%	\$ 5,350,887	47.71%

SINGLE AUDIT SECTION

MILLCREEK TOWNSHIP
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Project Title	Source Code	Federal CFDA Number	Grant Period Beginning/ Ending Date
<u>U.S. Department of Energy</u>			
ARRA- Energy Efficiency and Conservation Block Grant	D	81.128	11/23/09-11/22/12
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant	D	14.218	01/01/11-12/31/11
 <u>Total Federal Awards</u>			

Source Codes:

D-Direct Funding

MILLCREEK TOWNSHIP
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Program or Award Amount	Total Received For the Year	Accrued or (Deferred) Revenue at 12/31/10	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at 12/31/11
\$ 491,600	\$ 91,600	\$ (60,177)	\$ 151,777	\$ 151,777	\$ -
\$ 421,843	\$ 421,843	\$ -	\$ 421,843	\$ 421,843	-
<u>\$ 913,443</u>	<u>\$ 513,443</u>	<u>\$ (60,177)</u>	<u>\$ 573,620</u>	<u>\$ 573,620</u>	<u>\$ -</u>

Identification of Major Program Rule:

Total Federal Expenditures	\$ 573,620
Programs selected for testing:	
Community Development Block Grant	\$ 421,843 = 74%

MILLCREEK TOWNSHIP

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – BASIS OF PREPARATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Millcreek Township under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Millcreek Township, it is not intended to and does not present the financial position, changes in net assets or cash flows of Millcreek Township.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.



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PA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance
In Accordance with OMB Circular A-133

Board of Supervisors
Millcreek Township
Millcreek, PA

Compliance

We have audited Millcreek Township's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Millcreek Township's major federal programs for the year ended December 31, 2011. Millcreek Township's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Board of Supervisors of Millcreek Township. Our responsibility is to express an opinion on Millcreek Township's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Millcreek Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Millcreek Township's compliance with those requirements.

In our opinion, Millcreek Township complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The Board of Supervisor's of Millcreek Township is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Millcreek Township's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Supervisors of Millcreek Township, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Buseck, Barger, Bleil & Co. Inc.

Certified Public Accountants

April 20, 2012

Findings – Financial Statement Audit

Significant Deficiency

2011-1 Fixed Asset Accounting and Depreciation

Condition:

The Township is not using fixed asset software to record asset purchases as they occur during the year. The asset additions are summarized at the end of the year in excel spreadsheets and added to insurance appraisals prepared in prior years. Then an estimate is made for depreciation based on the asset totals recorded in the insurance appraisal. The insurance appraisal is updated annually but no changes are made for new asset additions or deletions. These changes are made yearly on an excel spreadsheet. This deficiency does not affect the fixed asset inventory for federal programs which requires an inventory every three years.

Criteria:

Internal controls for reporting should be in place to provide reasonable assurance that all assets over capitalization threshold are added when purchased and assets sold or disposed of are deleted. This also includes infrastructure. The depreciation on these assets should be removed from the accounting records when the assets are disposed of too.

Effect:

Because of the various spreadsheets used to record asset additions, assets could end up having more depreciation than the actual cost. No detail depreciation record is kept for each individual asset purchased in years after the actual insurance appraisal inventory.

Recommendation:

The Township should work with the vendor and get the fixed asset software that was purchased to work properly. It needs to have all assets entered individually and have the corresponding accumulated depreciation as of the beginning of the year entered. Then as the Township purchases assets or constructs infrastructure, those individual assets can be added immediately in the asset accounting records. As assets are sold or disposed of, they can also be individually removed. This may be a long process, but it is something that needs to be done. The Township needs to commit time to completing this.

Response:

We understand the importance of adequate fixed asset records and will promptly work with the vendor of our software and input all required fixed asset data. We will have the software fully implemented and functioning properly for the 2012 audit.