

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

YEARS ENDED
DECEMBER 31, 2005 AND 2004

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

YEARS ENDED DECEMBER 31, 2005 AND 2004

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Independent Auditors' Report

To the Officers
Fairview Township Fire Department
New Cumberland, Pennsylvania

We have audited the accompanying statement of assets and net assets - modified cash basis of the Fairview Township Fire Department (a non-profit organization and component unit of Fairview Township) as of December 31, 2005 and the related statement of support, revenue, expenses and changes in net assets - modified cash basis for the year then ended. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Fairview Township Fire Department as of December 31, 2004 were audited by other auditors whose report dated March 14, 2005 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets - modified cash basis of the Fairview Township Fire Department as of December 31, 2005, and its support, revenue, expenses and changes in net assets - modified cash basis for the year then ended, on the basis of accounting described in Note 1.

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The Fairview Township Fire Department has determined that for financial reporting purposes it is a governmental nonprofit organization as a result of it being included as a component unit of Fairview Township in 2005. The Fairview Township Fire Department is using enterprise fund accounting and financial reporting on the basis of accounting described in paragraph three above. The Fairview Township Fire Department has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not to be a part of, the basic financial statements.

Brown Schultz Shendan & Fritz

April 12, 2006

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

STATEMENTS OF ASSETS AND NET ASSETS - MODIFIED CASH BASIS

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash	\$ 205,865	\$ 172,359
Investments	<u> </u>	<u>13,468</u>
Total current assets	<u>\$ 205,865</u>	<u>\$ 185,827</u>
NET ASSETS		
Net assets, unrestricted	<u>\$ 205,865</u>	<u>\$ 185,827</u>

See notes to financial statements.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

STATEMENTS OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Support and revenue:		
Bingo	\$ 13,967	\$ 22,526
Donations	1,459	3,270
Hall rental income	9,633	13,418
Billed service and contract fees	5,175	5,410
Sales of equipment	20,000	3,909
Miscellaneous fund-raisers	71,147	61,780
Dividend income	83	269
Interest income	2,718	1,815
Miscellaneous reimbursements	5,276	3,664
Ladies auxiliary	4,195	8,501
Fire police	1,422	548
Increase in fair market value of investments		3,330
Grant income	<u>9,500</u>	<u> </u>
Total support and revenue	<u>144,575</u>	<u>128,440</u>
Expenses:		
Bank charges	217	119
Bingo expenses	4,219	7,462
Equipment repairs and maintenance	18,050	39,660
Equipment purchases	23,548	
Building maintenance	7,847	11,772
Utilities	12,587	16,289
Fund-raiser expenses	15,245	11,290
Uniforms	1,426	3,616
Food and entertainment	9,828	9,533
Insurance	17,203	24,433
Office expenses	2,649	4,272
Miscellaneous	3,849	4,829

(continued)

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

STATEMENTS OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Expenses (continued):		
Telephone	\$ 6,908	\$ 7,198
Ladies auxiliary	961	2,724
Firemen's relief reimbursements	<u> </u>	<u>36,306</u>
Total expenses	<u>124,537</u>	<u>179,503</u>
Change in net assets	20,038	(51,063)
Net assets:		
Beginning of year	<u>185,827</u>	<u>236,890</u>
End of year	<u>\$ 205,865</u>	<u>\$ 185,827</u>

See notes to financial statements.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Summary of significant accounting policies:

Nature of the Organization:

The Fairview Township Fire Department (Fire Department or Organization) is an all volunteer organization which provides fire fighting, education and prevention services to the residents in its area. The Fire Department's support and revenues are generated mostly from donations and fund-raising events. During 2005, Fairview Township (Township) acquired control over the operations of the Fire Department and became financially accountable for the fiscal matters of the Organization. The Township is required to report the Organization as a component unit of the Township under the criteria provided by the Governmental Accounting Standards Board. In exchange for these services, all assets of the Fire Department are to be turned over to the Township for management. As of December 31, 2005, the assets reported in these financial statements remained under the control of the Fire Department.

Fairview Township assesses a real estate tax for fire purposes against the residents of Fairview Township in order to pay for certain expenses of the Fire Department. During 2005 and 2004, the Township paid for Fire Department expenses of approximately \$40,153 and \$33,463, respectively. The 2005 and 2004 expenses were all operating expenses and none of them are included in these financial statements, but are included in the Township's financial statements.

Basis of accounting:

The Organization prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The cash basis has been modified to report investments at fair value. Under this basis, revenues are generally recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred.

Each year the Fire Department is allowed to submit, for payment or reimbursement, specified expenses to the Firemen's Relief Association (Relief Association) (see Note 4). In order to expedite the payment of their accounts payable, the Fire Department sometimes pays such invoices directly and then submits them to the Relief Association for reimbursement.

Net assets and support, revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. As of December 31, 2005 and 2004, the Fire Department has only unrestricted assets.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Summary of significant accounting policies (continued):

Property and equipment:

Fixed assets have not been included as a part of these financial statements. Purchases of fixed assets are recorded as expenditures at the time of purchase; therefore, no depreciation has been recorded on fixed assets. Fixed assets which were purchased with Relief Association or Township funds are not included in the financial statements because the Relief Association and/or Township retains title to such property.

Investments:

Investments are stated at fair value, measured by quoted prices in an active market.

Donated goods and services:

The time of the many Fire Department volunteers is donated to the Organization. The value of these contributed services is not included in these financial statements since it does not meet the criteria for recognition as contributed services and is not required under the modified cash basis of accounting.

Income taxes:

The Organization is classified as a nonprofit organization under Section 501(c)(4) of the Internal Revenue Code. Accordingly, no income tax is incurred unless the entity earns income considered to be unrelated business income.

Concentrations of credit risk:

At various times throughout the year, the Fire Department may have a cash balance in excess of \$100,000 in various banks. These funds are FDIC insured up to \$100,000 at each bank; therefore, amounts in excess of \$100,000 are uninsured and uncollateralized. Investments held in stock of Waypoint Financial Corp. are not covered by FDIC or collateral and are subject to market risk. The stock was sold in 2005 for no gain or loss.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements 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. Actual results could differ from those estimates.

2. Investments:

The investments at December 31, 2005 and 2004 are as follows:

Description	2005 Fair value	2004 Fair value
Common stock equities, Waypoint Financial Corp., 481 shares	<u>\$ -0-</u>	<u>\$ 13,468</u>

3. New fire station:

The Township recently accepted bids to build the Fire Department a new fire station and finance 100% of the project. During 2005, the Township acquired the buildings and land owned by the Fire Department at 340 Lewisberry Road and Spanglers Mill Road. The Township proceeded to demolish the property at 340 Lewisberry Road, site of the new station. The Organization moved its operations to its remaining station at 520 Locust Road (See Note 5) for the remainder of 2005 and 2006. This move cancelled bingo operations indefinitely and reduced hall rental income, as well as reduced expenses related to building maintenance, insurance and utilities.

The Township borrowed \$250,000 during 2005 to prepare the new station's site at 340 Lewisberry Road. The Township incurred engineering, legal, architectural and environmental fees of approximately \$250,000. The environmental fees were incurred to clean up the site from a leaking underground storage tank and abandoned septic system, as well as removal of ashes and mercury containing materials. The Township is awaiting approval for construction to begin from state environmental agencies.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

4. Firemen's Relief Association funding:

As disclosed in Note 1, some of the Fire Department's expenses are paid by the Relief Association. The Relief Association receives the majority of its funding from foreign fire insurance tax which Fairview Township receives from the state and, by law, is required to pass on to the Relief Association. The Relief Association is audited annually by the State Auditor General's Office in accordance with state laws. A copy of the audit report is available at the Township's office. Fairview Township Fire Department submits specifically approved expenses to be reimbursed by the Relief Association each year. During 2004, the Fire Department contributed \$36,306 to the Relief Association to reimburse the Relief Association for the purchase of various equipment that was purchased through a Federal Emergency Management Agency grant in 2003.

5. Fishing Creek Community Association:

The Fire Department owns real estate at 520 Locust Road in Fairview Township as joint tenants with the Fishing Creek Community Association (FCCA). The Fire Department uses a portion of the property as a fire station to serve the southern portion of the Township. The Community Association and the Fire Department share the rental income derived from the property. Two bank accounts are also shared. As of December 31, 2005, the total balance of those accounts is \$21,122. Neither the 2005 or 2004 year-end balances are included in these financial statements.

On June 12, 2001, an agreement was executed between the Fire Department and FCCA establishing a minimum monthly balance requirement (\$12,000) of the joint checking account; nature of expenditures to be paid from the account; determination and timing of accounts surplus distribution to joint owners; expenditures approval documentation and check signatories procedures; investment policies for interim excess funds and annual audit and tax reporting requirements.

6. Contingencies:

The Fire Department is exposed to various risks of loss related to the nature of the activity performed by the Fire Department. The Fire Department maintains commercial insurance covering these risks of loss. Management believes coverage is sufficient to preclude any significant uninsured losses. Previous claims have not exceeded this commercial coverage.

During May 2003, the Fire Department was named as a defendant in a lawsuit filed by a victim of a near collision with a Fire Department vehicle. The suit demands a jury trial and is claiming damages in excess of \$30,000. The matter has been turned over to the Fire Department's insurance carrier. The financial impact to the Fire Department cannot be determined at this time.

FAIRVIEW TOWNSHIP FIRE DEPARTMENT
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS - MODIFIED CASH BASIS (CONTINUED)

YEARS ENDED DECEMBER 31, 2005 AND 2004

7. Functional expenses:

Expenses by function for the years ended December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Program service, fire fighting and prevention	\$ 95,309	\$ 147,393
Administrative	8,803	10,634
Fund-raising	<u>20,425</u>	<u>21,476</u>
	<u>\$ 124,537</u>	<u>\$ 179,503</u>

Independent Auditors' Report on Supplemental Information

To the Officers
Fairview Township Fire Department
New Cumberland, Pennsylvania

Our report on our audit of the financial statements of the Fairview Township Fire Department (a component unit of Fairview Township) for the year ended December 31, 2005, appears on page 1. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of fixed assets is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Brown Schultz Sheridan & Fritz

April 12, 2006

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FAIRVIEW TOWNSHIP FIRE DEPARTMENT
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SCHEDULE OF FIXED ASSETS
(AT ESTIMATED FAIR VALUES AND/OR INSURED VALUES)

DECEMBER 31, 2005
(See independent auditors' report on supplemental information)

	<u>2005</u>
Land and buildings *	\$ 430,000
Vehicles and fire fighting equipment	245,000
Furniture, fixtures and other equipment (other than fire fighting equipment)	<u>30,000</u>
Total	<u>\$ 705,000</u>

* Property located at 520 Locust Road owned 50/50 with the Fishing Creek Community Association. Presented at 50% of fair value.