

TOWNSHIP OF LOWER PROVIDENCE

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Year Ended December 31, 2001



MAILLIE, FALCONIERO & COMPANY, LLP
Certified Public Accountants and Business Counselors

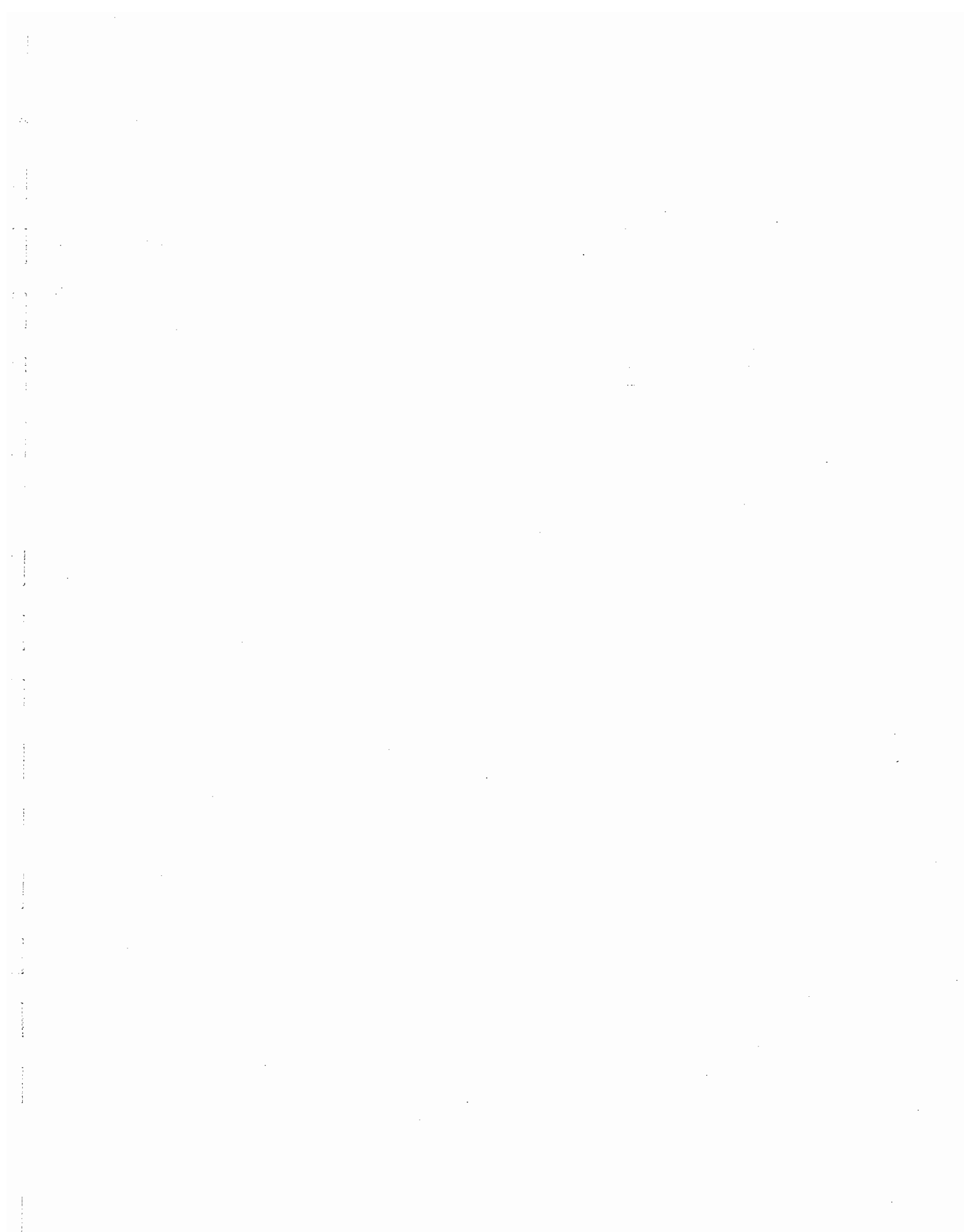


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Independent Auditors' Report

To the Board of Supervisors
Township of Lower Providence
Eagleville, Pennsylvania

We have audited the accompanying general purpose financial statements of the Township of Lower Providence, Eagleville, Pennsylvania, as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Lower Providence, Eagleville, Pennsylvania's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Lower Providence Township Municipal Authority (Proprietary Fund Type Component Unit) and the Lower Providence Township Sewer Authority (Proprietary Fund Type Component Unit). Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the Proprietary Fund Type Component Units, is based on the report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Lower Providence, Eagleville, Pennsylvania, as of December 31, 2001, and the results of its operations and the cash flows of its Proprietary Fund Type Component Units for the year then ended in conformity with U.S. generally accepted accounting principles.

Maillie, Falconiero & Company, LLP

February 14, 2002

TOWNSHIP OF LOWER PROVIDENCE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2001

	Governmental Fund Types			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Sei</u>
ASSETS AND OTHER DEBITS				
Cash and cash equivalents	\$ 2,170,270	\$ 867,644	\$ 979,747	\$
Investments	-	-	-	
Due from Municipal Authority	3,078,001	-	-	
Due from developers, net of \$23,429 allowance	42,928	-	-	
Accounts receivable	149,160	10,495	832	
Inventory	-	-	-	
Prepaid expenses	19,783	2,119	-	
Interest receivable	-	-	-	
Property and equipment, net of accumulated depreciation	-	-	-	
Due from other funds	66,534	1,294	69,889	
Deferred charges	-	-	-	
Amount to be provided for payment of capital lease obligations	-	-	-	
Amount to be provided for retirement of bonds and notes payable	-	-	-	
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 5,526,676</u>	<u>\$ 881,552</u>	<u>\$ 1,050,468</u>	<u>\$ 6</u>

See accompanying notes.

	Governmental Fund Types			
	General Fund	Special Revenue Funds	Capital Project Funds	D Service
LIABILITIES AND EQUITY AND OTHER CREDITS				
LIABILITIES				
Due to other funds	\$ 69,889	\$ -	\$ -	\$ -
Due to Township	-	-	-	-
Accounts payable	135,615	204,978	-	-
Accrued expenses	-	-	-	-
Escrow deposits	183,132	-	-	-
Accrued payroll and payroll taxes	59,940	3,672	-	-
Interest payable	-	-	-	-
Deferred revenue	10,000	-	-	-
Capital lease obligations	-	-	-	-
Bonds and notes payable	-	-	-	-
Deferred loss on advanced refunding	-	-	-	-
TOTAL LIABILITIES	458,576	208,650	-	-
COMMITMENTS AND CONTINGENCIES				
EQUITY AND OTHER CREDITS				
Contributed capital	-	-	-	-
Investment in general fixed assets	-	-	-	-
Accumulated deficit	-	-	-	-
Fund balances				
Unreserved	5,068,100	672,902	1,050,468	6,28
TOTAL EQUITY AND OTHER CREDITS	5,068,100	672,902	1,050,468	6,28
TOTAL LIABILITIES AND EQUITY AND OTHER CREDITS	\$ 5,526,676	\$ 881,552	\$ 1,050,468	\$ 6,28

TOWNSHIP OF LOWER PROVIDENCE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2001

	<u>General Fund</u>
REVENUES	
Taxes	\$ 4,858,336
Licenses and permits	178,516
Fines and forfeits	110,948
Interest and rents	87,949
Intergovernmental revenue	467,762
Charges for services	748,678
Miscellaneous	<u>84,470</u>
TOTAL REVENUES	6,536,659
EXPENDITURES	
General government	826,530
Public safety	2,718,265
Health and sanitation	15,410
Highways and streets	578,086
Recreation	-
Miscellaneous	1,109,824
Debt service	-
TOTAL EXPENDITURES	<u>5,248,115</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,288,544
OTHER FINANCING SOURCES (USES)	
Proceeds from sale of general fixed assets	14,966
Operating transfers in	441,663
Operating transfers out	(606,781)
Refund of prior year expenditures, net	6,252
TOTAL OTHER FINANCING SOURCES (USES)	<u>(143,900)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES FORWARD	\$ <u>1,144,644</u>

TOWNSHIP OF LOWER PROVIDENCE

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2001

	<u>General Fund</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES FORWARDED	\$ 1,144,644
FUND BALANCES AT BEGINNING OF YEAR	<u>3,923,456</u>
FUND BALANCES AT END OF YEAR	<u>\$ 5,068,100</u>

See accompanying notes.

TOWNSHIP OF LOWER PROVIDENCE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--BUDGETARY BASIS

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

Year Ended December 31, 2001

	<u>Budget</u>
REVENUES	
Taxes	\$ 4,325,600
Licenses and permits	146,250
Fines and forfeits	68,000
Interest and rents	110,100
Intergovernmental revenue	512,728
Charges for services	539,500
Miscellaneous	<u>2,400</u>
TOTAL REVENUES	5,704,578
EXPENDITURES	
General government	802,787
Public safety	2,652,480
Health and sanitation	15,000
Highways and streets	569,641
Recreation	-
Miscellaneous	<u>1,217,787</u>
TOTAL EXPENDITURES	<u>5,257,695</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	446,883
OTHER FINANCING SOURCES (USES)	
Proceeds from sale of general fixed assets	5,000
Operating transfers out	(441,663)
Refund of prior year expenditures, net	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(436,663)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES FORWARD	\$ <u>10,220</u>

TOWNSHIP OF LOWER PROVIDENCE

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES--BUDGETARY BASIS**

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

Year Ended December 31, 2001

Budget

EXCESS (DEFICIENCY) OF REVENUES AND
OTHER FINANCING SOURCES OVER
EXPENDITURES AND OTHER USES
FORWARDED

\$ 10,220

FUND BALANCES AT BEGINNING OF YEAR, BUDGETARY
BASIS

FUND BALANCES AT END OF YEAR, BUDGETARY
BASIS

RECONCILIATION TO GAAP BASIS

Accounts receivable and prepaid expenditures

Due from Municipal Authority

Accounts payable, accrued expenditures and deferred revenue

FUND BALANCES AT END OF YEAR, GAAP BASIS

See accompanying notes.

TOWNSHIP OF LOWER PROVIDENCE
COMBINING BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2001

	<u>Municipal Authority</u>	<u>Sewer Authority</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 3,185	\$ 843,599	\$ 846,784
Investments	-	17,875,000	17,875,000
Accounts receivable	-	33,969	33,969
Inventory	4,305	-	4,305
Interest receivable	-	218,461	218,461
Property and equipment, net of accumulated depreciation	3,995,483	15,495,625	19,491,108
Deferred charges	<u>211,615</u>	<u>775,136</u>	<u>986,751</u>
TOTAL ASSETS	<u>\$ 4,214,588</u>	<u>\$ 35,241,790</u>	<u>\$ 39,456,378</u>
LIABILITIES AND RETAINED EARNINGS (DEFICIT)			
LIABILITIES			
Due to Township	\$ 9,298,001	\$ -	\$ 9,298,001
Accounts payable	116,196	40,464	156,660
Accrued expenses	-	6,280	6,280
Escrow deposits	-	66,847	66,847
Interest payable	315,423	162,969	478,392
Deferred revenue	2,460	-	2,460
Capital lease obligations	34,088	-	34,088
Bonds and notes payable	-	18,915,000	18,915,000
Deferred loss on advanced refunding	<u>(412,536)</u>	<u>(887,178)</u>	<u>(1,299,714)</u>
TOTAL LIABILITIES	9,353,632	18,304,382	27,658,014
RETAINED EARNINGS (DEFICIT)			
Contributed capital	1,204,644	12,852,277	14,056,921
Retained earnings (deficit)	<u>(6,343,688)</u>	<u>4,085,131</u>	<u>(2,258,557)</u>
TOTAL RETAINED EARNINGS (DEFICIT)	<u>(5,139,044)</u>	<u>16,937,408</u>	<u>11,798,364</u>
TOTAL LIABILITIES AND RETAINED EARNINGS (DEFICIT)	<u>\$ 4,214,588</u>	<u>\$ 35,241,790</u>	<u>\$ 39,456,378</u>

See accompanying notes.

TOWNSHIP OF LOWER PROVIDENCE**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN RETAINED EARNINGS (DEFICIT)
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended December 31, 2001**

	Municipal Authority	Sewer Authority	Totals
OPERATING REVENUES	\$ 481,190	\$ 1,365,473	\$ 1,846,663
OPERATING EXPENSES	<u>595,642</u>	<u>1,665,019</u>	<u>2,260,661</u>
LOSS FROM OPERATIONS	(114,452)	(299,546)	(413,998)
NONOPERATING REVENUES (EXPENSES)			
Investment income	-	1,133,596	1,133,596
Grants	-	1,576	1,576
Development costs on abandoned facility expansion project	(28,076)	-	(28,076)
Loss on impairment/abandonment of fixed assets	(3,284)	-	(3,284)
Arbitrage rebate	-	(36,913)	(36,913)
Amortization of bond issue costs	(45,562)	(21,312)	(66,874)
Interest expense	<u>(393,995)</u>	<u>(1,066,139)</u>	<u>(1,460,134)</u>
	<u>(470,917)</u>	<u>10,808</u>	<u>(460,109)</u>
NET LOSS	(585,369)	(288,738)	(874,107)
TRANSFER OF DEPRECIATION ON FIXED ASSETS BY SEWER CONNECTION FEES THAT REDUCES CAPITAL CONTRIBUTIONS	<u>-</u>	<u>196,947</u>	<u>196,947</u>
NET DECREASE IN RETAINED EARNINGS (DEFICIT)	(585,369)	(91,791)	(677,160)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	<u>(5,758,319)</u>	<u>4,176,922</u>	<u>(1,581,397)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (6,343,688)</u>	<u>\$ 4,085,131</u>	<u>\$ (2,258,557)</u>

See accompanying notes.

TOWNSHIP OF LOWER PROVIDENCE
COMBINED STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Loss from operations	\$ (413,998)
Adjustments to reconcile loss from operations to net cash provided by operating activities	
Depreciation	579,374
(Increase) decrease in	
Accounts receivable	22,815
Inventory	(3,555)
Prepaid expenses	7,875
Increase (decrease) in	
Accounts payable	46,119
Accrued expenses	(2,514)
Escrow deposits	28,372
Deferred revenue	1,357
NET CASH PROVIDED BY OPERATING ACTIVITIES FORWARD	<u>265,845</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grants	1,576
Proceeds from promissory notes	25,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES FORWARD	<u>26,576</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on long-term debt	(500,000)
Acquisition and construction of capital assets	(205,377)
Principal paid on capital lease obligations	(21,124)
Interest paid on capital lease obligations	(3,052)
Interest paid on long-term debt	(1,003,495)
Development costs on abandoned facility expansion project	(28,076)
Contributed capital	914,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES FORWARD	<u>\$ (847,124)</u>

TOWNSHIP OF LOWER PROVIDENCE
COMBINED STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES	
NET CASH PROVIDED BY OPERATING ACTIVITIES FORWARDED	\$ 265,845
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES FORWARDED	26,576
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES FORWARDED	(847,124)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	22,687,196
Purchase of investments	(28,266,648)
Interest received on investments	1,015,263
Arbitrage rebate paid	(60,158)
NET CASH USED BY INVESTING ACTIVITIES	<u>(4,624,347)</u>
NET DECREASE IN CASH	(5,179,050)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,025,834</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 846,784</u>

See accompanying notes.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE A REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements of the Township of Lower Providence include the departments and other organizational units over which the Board of Supervisors exercises oversight responsibility, including general government, police protection, parks and recreation, public works and sanitation and its component units. The component units discussed below are included in the Township's reporting entity because of the significance of their operational or financial relationships with the Township.

Individual Component Units

The criteria for including organizations as component units within the Township's reporting entity, as set forth in Section 2100 in GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- a. The organization is legally separate (can sue and be sued in their own name).
- b. The Township appoints a voting majority of the organization's board.
- c. The Township is able to impose its will on the organization.
- d. The organization has the potential to impose a financial benefit/burden on the Township.
- e. There is a fiscal dependency by the organization on the Township.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Based on the above criteria, the following are considered component units of the Township and are reported discretely in the Township's financial statements:

The Lower Providence Township Municipal Authority (Municipal Authority) is a separate legal entity created to maintain and operate the General Washington Recreation Center for the Township since 1994. Board members are appointed by the Township Board of Supervisors. The Township is legally entitled to all Municipal Authority revenues collected but not otherwise required for the purposes of paying current debt service, operating expenses, extraordinary maintenance costs or providing for current capital improvements or planned and approved capital expenditures. The Municipal Authority may not sell, donate or otherwise dispose of its real estate and/or facilities without the written approval of the Township. The Township has agreed to aid and assist the Municipal Authority in the maintenance and operation of the General Washington facility to the extent reasonably possible. Also, substantially all of the Municipal Authority's debt is payable to the Township.

The Lower Providence Township Sewer Authority (Sewer Authority) is a separate legal entity created to operate the Township's sewer system. Board members are appointed by the Township Board of Supervisors. The Sewer Authority provides services to citizens, who are charged a sewer connection fee. These fees represent the owner's portion of expansion costs of the Sewer Authority's sewer lines. These fees are shown as contributed capital.

The above component units issue separately audited financial statements. The Sewer Authority's financial statements' year end is June 30, 2001. Copies of these component unit reports may be obtained from the Township Finance Director. The Authorities are presented as Proprietary Fund Types.

In reviewing the criteria for inclusion in the financial statements, the Township also considered the following:

The tax collector is an elected officer who collects taxes on behalf of the Township, Montgomery County and the Methacton School District. The Township regards the tax collector's office as a separate entity and, therefore, does not account for its activity in the financial statements.

The fire department receives a contribution from the Township. However, the majority of revenues generated is through private fund raisers under the direction of a separate independent board not appointed by the Supervisors. The departments are organized under a separate charter and, therefore, are not included in the financial statements.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Significant Accounting Policies

Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Township resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into six broad fund categories and three generic fund types as follows:

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the Township. General tax revenues and other sources of revenue used to finance the fundamental operations of the Township are included in this fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. These funds account principally for the parks and recreation activity, disposition of state liquid fuels highway aid funding and contributions to the community library.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition of major capital facilities.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Fiduciary Fund Types

Fiduciary Funds include Agency Funds. Agency Funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations.

Agency Funds

Agency Funds account for collection and disbursement of assets held in trust by a government for an individual, a group of individuals, or another governmental unit.

Account Groups

Account Groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting records of the general fixed assets and general long-term obligations. The following is a description of the Account Groups of the Township:

General Fixed Assets Account Group

The General Fixed Assets Account Group is used to maintain control and cost information for all fixed assets.

General Long-Term Debt Account Group

The General Long-Term Debt Account Group is used to record the outstanding long-term obligations of the Township.

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income and cash flows. The U.S. generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Fund of the Township:

Component Units

The component units include the Municipal Authority and the Sewer Authority.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Basis of Preparation

The Township prepares its general purpose financial statements under the modified accrual basis of accounting for all funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual. Revenues considered susceptible to accrual are those revenues that are both measurable and available as a resource which can be used to finance governmental operations during the year. Expenditures are recognized when the liability is incurred.

The Proprietary Fund Type Component Units are presented as an Enterprise Type Fund. The Enterprise Fund utilizes the accrual basis of accounting, similar to private business enterprises. Assets, liabilities, revenues and expenses are recorded on the accrual basis of accounting. Pursuant to GASB Statement 20, the authorities, in preparing their financial statements, have elected to apply all applicable GASB pronouncements as well as the following other pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the FASB, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Township and its component units to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments are carried at quoted fair value.

Property and Equipment

Property and equipment are recorded as expenditures in the General Fund, Special Revenue Funds and Capital Project Funds at the time goods are received and a liability is incurred. These assets are capitalized at cost in the General Fixed Assets Account Group except for rights of way and certain improvements other than buildings constructed in the public right of way such as roads, bridges, curbs, gutters, streets and sidewalks, drainage systems and lighting systems, as these assets are immovable and of value only to the Township.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Property and equipment purchased by the Proprietary Fund Type are carried at cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs for repairs and maintenance are expensed as incurred.

Depreciation on all property and equipment is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Sewer system	40
Land improvements	20-40
Building and improvements	10-40
Furniture, fixtures and equipment	3-20

Donated property is recorded at its actual construction price.

Memo Only, Total Columns

Total columns on the financial statements are captioned "memo only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with U.S. generally accepted accounting principles; nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Real Estate Tax Calendar

The original tax duplicate is received by the tax collector and mailed March 1. The discount period extends through April 30, followed by the flat period through June 30 and ends with the penalty period after July 1. The penalty is 10%. Any unpaid taxes at the end of the year are required to be liened by January 15 with the county.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Inventories

Inventories are stated at cost, applied on the first-in, first-out method. Included in the inventory are consumable items used in the operation of the facility, such as pro shop merchandise, food and beverages.

Interfund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from other funds."

Deferred Charges

Deferred charges (Proprietary Fund Type) consist of bond issue costs, which are amortized over the life of the bonds. The accumulated amortization was \$319,347 as of December 31, 2001.

Budget Policy

The Board of Supervisors annually adopts the budget for the General and Special Revenue Funds of the Township. Budgetary control is legally maintained at the fund level. The Township's budget policy provides transfer authority to the Supervisors within and between categories as long as the total budget of the Township (net of interfund transfers) is not increased.

All budget amounts presented in the accompanying financial statements and additional information have been adjusted for legally authorized revisions to the annual budgets during the year.

NOTE B CASH AND CASH EQUIVALENTS

At December 31, 2001, total cash and cash equivalents consisted of the following:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Checking and savings accounts	\$ 1,668,134	\$ 702,270	\$ 2,370,404
PLGIT money market funds	2,518,059	-	2,518,059
U.S. Treasury money market	-	143,738	143,738
Petty cash	<u>325</u>	<u>776</u>	<u>1,101</u>
	<u>\$ 4,186,518</u>	<u>\$ 846,784</u>	<u>\$ 5,033,302</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the act, to cover all public funds deposited in excess of federal depository insurance limits.

At December 31, 2001, the primary government owned units of the Pennsylvania Local Government Investment Trust (PLGIT) totaling \$2,518,059. This Trust invests in U.S. Government or federally insured deposits which are titled to and held by the Trust.

The Township's cash and cash equivalents consist of deposits with financial institutions and U.S. Government and agency securities. The following is a schedule of the primary government's cash and cash equivalents at December 31, 2001, categorized by risk:

	Category			Bank Balance	Carrying Amounts
	1	2	3		
CASH AND CASH EQUIVALENTS					
Checking and savings accounts	\$ 100,000	\$ -	\$ 1,698,683	\$ 1,798,683	\$ 1,668,134
Petty cash	-	-	-	-	325
	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 1,698,683</u>	<u>\$ 1,798,683</u>	<u>\$ 1,668,459</u>

GASB 3, Paragraph 69, provides that certain types of cash, such as cash in a state treasurer's investment pool or mutual funds cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PLGIT cash included in these financial statements will not be assigned a credit risk category. The bank balance and carrying amounts of the PLGIT cash at December 31, 2001, was \$2,518,059.

The following is a schedule of the component units' cash and cash equivalents at December 31, 2001:

	Category			Bank Balance	Carrying Amounts
	1	2	3		
CASH AND CASH EQUIVALENTS					
Checking and savings accounts	\$ 125,657	\$ -	\$ 604,819	\$ 730,476	\$ 702,270
Petty cash	-	-	-	-	776
	<u>\$ 125,657</u>	<u>\$ -</u>	<u>\$ 604,819</u>	<u>\$ 730,476</u>	<u>\$ 703,046</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Category

- 1 Insured or collateralized with securities held by the Township or by its agent in the Township's name.
- 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.
- 3 Uncollateralized includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Township's name.

U.S. Treasury money market funds, with a carrying amount and bank balance of \$143,738, are not assigned a credit risk per GASB 3.

NOTE C INVESTMENTS

The following is a schedule of the component units' investments at December 31, 2001, categorized by risk:

	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of deposit	\$ <u> -</u>	\$ <u> -</u>	\$ <u>17,875,000</u>	\$ <u>17,875,000</u>

Category

- 1 Insured or collateralized for which the securities are held by the Township or by its agent in the Township's name.
- 2 Uninsured and unregistered for which the securities are held by the pledging financial institution's trust department or agent in the Township's name.
- 3 Uninsured and unregistered for which the securities are held by the pledging financial institution's trust department or agent, but not in the Township's name.

TOWNSHIP OF LOWER PROVIDENCE**NOTES TO FINANCIAL STATEMENTS***December 31, 2001***NOTE D ACCOUNTS RECEIVABLE**

Accounts receivable are comprised of the following:

	<u>General Fund</u>	<u>Government Special Revenue Funds</u>
Real estate, per capita and real estate transfer taxes	\$ 42,993	\$ 10,000
Intergovernmental	6,788	-
Sewer rental and connection fees	-	-
Other	<u>99,379</u>	<u>495</u>
	<u>\$ 149,160</u>	<u>\$ 10,495</u>

The Township and its Component Units consider accounts receivable to be fully collectible, and, therefore, no allowance for doubtful accounts is required.

NOTE E PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	<u>Primary Government</u>	<u>Component Units</u>
Land and garage building	\$ 1,600,622	\$ 3,811,503
Construction in progress	-	683,368
Sewer system	-	20,524,664
Buildings and improvements	3,105,604	320,707
Vehicles	1,323,926	-
Equipment and office furniture	<u>1,342,228</u>	<u>593,449</u>
	<u>7,372,380</u>	<u>25,933,691</u>
Accumulated depreciation	-	<u>(6,442,583)</u>
	<u>\$ 7,372,380</u>	<u>\$ 19,491,108</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

The following is a summary of changes in the General Fixed Assets Account Group:

	Balance January 1, 2001	Additions	Deletions	Balance December 31, 2001
Land	\$ 1,433,361	\$ 167,261	\$ -	\$ 1,600,622
Buildings and improvements	2,881,900	223,704	-	3,105,604
Vehicles	1,266,195	171,376	(113,645)	1,323,926
Machinery and equipment	1,275,645	80,208	(13,625)	1,342,228
	<u>\$ 6,857,101</u>	<u>\$ 642,549</u>	<u>\$ (127,270)</u>	<u>\$ 7,372,380</u>

NOTE F INTERGOVERNMENTAL REVENUE

Intergovernmental revenue by source is summarized as follows:

	General Fund	Special Revenue Funds
U.S. DEPARTMENT OF JUSTICE		
Bulletproof Vest Partnership Grant	\$ 2,819	\$ -
COPS Grant	24,749	-
COMMONWEALTH OF PENNSYLVANIA		
Department of Transportation	-	324,475
Department of Community and Economic Development	3,645	-
Police and non-uniformed pension	226,650	-
Fire company allocation	128,521	-
Recycling	68,804	-
Alcoholic beverages tax	4,300	-
Public Utility Realty tax	8,274	-
Act 339 Grant	-	-
	<u>\$ 467,762</u>	<u>\$ 324,475</u>

Approximately 7% of all Township receipts represents federal, state and county grants.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE G RELATED-PARTY TRANSACTIONS

On November 15, 1995, the Township entered into a note payable through the issuance of General Obligation Bonds (Note I) with the Municipal Authority to finance capital improvements to the General Washington Recreation Center. The Municipal Authority has signed several promissory notes payable to the Township due to the Municipal Authority's inability to meet its share of the annual debt service requirements. No payments on the promissory notes are due until maturity. The first note is scheduled to mature January 2003. An interest rate of 3.65% per annum is payable at maturity. The balance outstanding of all the promissory notes at December 31, 2001, is \$3,061,001. In addition, the Municipal Authority owes the Township \$17,000 for additional services and a copier provided from 1995 through 1997.

The Sewer Authority has a month-to-month written lease with the Township for office space at \$300 per month. Annual rent expense is \$3,600.

NOTE H ESCROW DEPOSITS

The Township specifies building and land improvement requirements as a condition to the issuance of building permits. These escrows represent funds from independent builders that are returned upon the completion of required improvements to various properties within the Township. The escrow balance is maintained in the cash accounts of the Township.

The Sewer Authority enters into agreements with various real estate owners whereby each owner deposits funds with the Sewer Authority, the proceeds of which would be used to pay engineering, legal and other administrative costs incurred relating to the owner's request to be connected to the Sewer Authority's sewage collection system.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

NOTE I BONDS AND NOTES PAYABLE

During the year ended December 31, 2001, the following changes occurred in liabilities reported as bonds and notes payable:

	Balance Outstanding January 1, 2001	Proceeds (Redemptions)	Balance Outstanding December 31, 2001
	<u> </u>	<u> </u>	<u> </u>
PRIMARY GOVERNMENT			
General Obligation Bonds, Series of 1994, with annual principal and interest ranging from 4.3% to 5.25%, due through December 2004	\$ 415,000	\$ (95,000)	\$ 320,000
General Obligation Bonds, Series of 1995, with annual principal and interest ranging from 3.65% to 5.25%, due through May 2022	3,840,000	(160,000)	3,680,000
General Obligation Note, Series of 1997, with principal only due through December 2006	193,105	(32,184)	160,921
General Obligation Bonds, Series of 1998, with principal and interest ranging from 3.4% to 4.55%, due through December 2024	<u>4,780,000</u>	<u>(30,000)</u>	<u>4,750,000</u>
TOTAL PRIMARY GOVERNMENT FORWARD	<u>\$ 9,228,105</u>	<u>\$ (317,184)</u>	<u>\$ 8,910,921</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

	Balance Outstanding January 1, 2001	Proceeds (Redemptions)	Balance Outstanding December 31, 2001
PRIMARY GOVERNMENT			
TOTAL PRIMARY GOVERNMENT FORWARDED	\$ 9,228,105	\$ (317,184)	\$ 8,910,921
 COMPONENT UNITS			
Guaranteed Sewer Revenue Bonds, Series of 1992, with principal and interest ranging from 6% to 6.1%, due through May 2002	470,000	(230,000)	240,000
Guaranteed Sewer Revenue Bonds, Series of 1995, with principal and interest ranging from 4.3% to 5.25%	<u>18,945,000</u>	<u>(270,000)</u>	<u>18,675,000</u>
TOTAL COMPONENT UNITS	<u>19,415,000</u>	<u>(500,000)</u>	<u>18,915,000</u>
	<u>\$ 28,643,105</u>	<u>\$ (817,184)</u>	<u>\$ 27,825,921</u>

On June 1, 1994, the Township issued General Obligation Bonds, Series of 1994, for \$5,235,000. The proceeds from the issuance were used to (1) acquire and improve the General Washington Recreation Center, (2) reimburse the Township for capital costs previously incurred, (3) capitalize interest through June 1, 1995, (4) provide initial working capital and (5) pay the costs related to the issuance of the bonds. During 1998, these bonds were partially refunded leaving remaining annual principal and interest payments due ranging from \$95,000 to \$115,000 and \$6,038 to \$290,745, respectively, through December 2004.

On November 15, 1995, the Township issued General Obligation Bonds, Series of 1995, for \$4,495,000. Principal and interest payments were scheduled to begin on May 1, 1996, and continue through May 2022, with an annual debt service requirement ranging from \$204,550 to \$355,557.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

On June 30, 1997, the Township issued \$321,841 of a General Obligation Note, Series of 1997, as part of the Montgomery County Infrastructure Loan Program. The proceeds are to be used for improvements to public infrastructure. Payments of principal only were scheduled to begin December 31, 1997, and continue through December 2006, with an annual amount due of \$32,184.

On October 15, 1998, the Township issued General Obligation Bonds, Series of 1998, for \$4,815,000. The proceeds from the issuance will be used to (1) refund a portion of the Township's outstanding General Obligation Bonds, Series of 1994 (\$4,315,000) and (2) pay costs related to the issuance of the bonds. Payments of principal and interest are scheduled to begin December 1, 1999, and continue through December 2024, with an annual debt service requirement ranging from \$234,655 to \$358,012.

On April 30, 1992, the Sewer Authority's Board of Directors authorized the issuance of Sewer Revenue Bonds in the amount of \$11,800,000. During the year ended June 30, 1996, the Sewer Authority authorized the issuance of the Series of 1995 Guaranteed Sewer Revenue Bonds. A portion of the proceeds of the 1995 issuance was used to finance the advanced refunding of the outstanding Series of 1992 Sewer Revenue Bonds maturing on or after May 1, 2003. The advanced refunding resulted in a deferred loss on debt refunding of \$1,125,202.

According to governmental generally accepted accounting principles (GGAAP), this deferred loss is to be amortized over the original remaining life of the refunded debt, which is May 1, 2022. Amortization is included as a component of interest expense and totaled \$43,277 for the year ended June 30, 2001. The remaining portion of the Series of 1995 was to finance expansion and improvements of the sewer system.

The annual requirements to amortize all debt outstanding as of December 31, 2001, including interest payments, are as follows:

<u>Year Ended December 31,</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
2002	\$ 731,667	\$ 1,496,403	\$ 2,228,070
2003	742,690	1,492,585	2,235,275
2004	742,492	1,491,190	2,233,682
2005	736,246	1,488,191	2,224,437
2006	740,823	1,488,265	2,229,088
2007 and thereafter	<u>10,266,792</u>	<u>23,639,531</u>	<u>33,906,323</u>
	<u>\$ 13,960,710</u>	<u>\$ 31,096,165</u>	<u>\$ 45,056,875</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE J CAPITAL LEASE OBLIGATIONS

Primary Government

The Township has entered into a lease agreement as a lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded in the General Fixed Assets Account Group. The following is an analysis of the capital lease for 2001:

	General Fixed Assets
	<hr/>
Equipment	\$ <u>20,029</u>

Component Unit

The Municipal Authority has entered into four lease agreements as a lessee for financing the acquisition of a pro shop building and various equipment. The following is an analysis of the capital leases for 2001:

Building and improvements	\$ 119,354
Furniture, fixtures and equipment	119,155
Accumulated depreciation	<u>(89,022)</u>
	\$ <u>149,487</u>

The following is a schedule of the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at December 31, 2001:

<u>Year Ended December 31,</u>	<u>General Long-Term Debt</u>	<u>Component Units</u>
2002	\$ 2,117	\$ 27,193
2003	<u>-</u>	<u>8,730</u>
	2,117	35,923
Amount representing interest	<u>(54)</u>	<u>(1,835)</u>
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	\$ <u>2,063</u>	\$ <u>34,088</u>

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE K DEFEASED DEBT

Township

As of December 31, 2001, the Township has defeased debt outstanding of \$4,315,000 on its General Obligation Bonds, Series of 1994 (Note I). Investments with maturities and interest payments scheduled to coincide with debt service requirements, held with the escrow agent at December 31, 2001, have a fair value of \$4,492,228.

Sewer Authority

In prior years, the Sewer Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued, and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the Sewer Authority's accounts. As of June 30, 2001, the amount of defeased debt outstanding but removed from the accounts amounted to \$10,040,000.

NOTE L PENSION PLANS - TOWNSHIP

Plan Descriptions

The Township of Lower Providence sponsors a single employer defined benefit police pension plan for police officers and a single-employer defined benefit non-uniformed pension plan for municipal employees of the Township. These plans are included in the Pension Trust Fund of the Township of Lower Providence and are controlled by various ordinances adopted pursuant to Pennsylvania Act 205.

Police Pension Plan

The Township of Lower Providence sponsors a public employee retirement system (PERS) to provide pension benefits for police officers of the Township. The pension plan provides retirement benefits as well as death and disability benefits. All benefits vest after 12 years of credited service. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average salary. Final average salary is the employee's average salary over the last three years of credited service.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

The Township is required by statute, principally Pennsylvania Act 205, to contribute the amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. The annual contribution for 2001 was \$155,882.

Non-Uniformed Employees Pension Plan

The Township of Lower Providence sponsors a public employee retirement system (PERS) to provide pension benefits for non-uniformed employees of the Township.

The pension plan provides retirement as well as death and disability benefits. All benefits are fully vested at 14 years of credited service. Employees who retire at or after age 60 (with ten years of service) are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of average salary reduced by 50% of the social security benefit. Final average salary is the employee's average salary, excluding overtime, over the last five years of credited service. An option for early retirement is available for employees who reach the age of 55 and have completed 15 years of service.

The Township is required by statute, principally Pennsylvania Act 205, to contribute the amounts necessary to finance the plan. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. The annual contribution for 2001 was \$145,846.

Basis of Accounting

The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due, in accordance with Act 205, as amended by Act 189. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the insurance company.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Expenses

Investment expenses consist of investment management, custodial fees and other significant investment-related costs. Administrative expenses consist of consulting, actuarial, legal and accounting services, along with any other significant plan-related costs. The above expenses are allowable pension plan expenditures and may be funded with plan assets.

Deposits and Investments

The Governmental Accounting Standards Board, in Statement No. 3 (GASB 3), requires certain note disclosures about governmental entities' deposits with financial institutions, investments (including repurchase agreements) and reversed repurchased agreements. The disclosures required by GASB 3 will provide readers with information about credit and market risks. As of the date of this financial statement, since the investment institution did not provide the disclosure information required by GASB 3, we are assuming the information below to be correct:

	<u>Fair Value</u>	<u>Carrying Amount</u>
ASSETS AT CONTRACT VALUE		
Police	\$ 6,751,444	\$ 6,751,444
Non-Uniformed	1,177,927	1,177,927

Contribution Requirements

Act 205

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the Minimum Municipal Obligation (MMO) to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated member contributions.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Funding Policy

As a condition of participation, full-time employees are not required to contribute to the plan. Furthermore, the Township allocates state aid received from the Commonwealth of Pennsylvania to this plan. To the extent that these fundings are not adequate, the Township would then be required to contribute. In accordance with Act 205, the Township was required to contribute \$75,078 to the plan for the year 2001.

Financial Reporting

The Township issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained at the Township Building, 100 Parklane Drive, Eagleville, PA 19403, Attention: Ms. Elizabeth Tanay, Finance Director.

Schedule of Funding Progress

The six-year historical trend information about the plans is presented herewith as required supplementary information. It is intended to help users assess the plans' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biannually, except for distressed pension plans, which require annual reporting.

Police Pension Plan

Actuarial Valuation Date January 1,	Actuarial Value of Assets	Accrued Liability	Percentage Funded (1)/(2)	Unfunded (Assets in Excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded Accrued Liability as a Percentage of Payroll (4)/(5)
1989	\$ 1,831,030	\$ 1,566,031	116.9%	\$ (264,999)	\$ 685,833	N/A
1991	2,393,099	1,863,611	128.4	(529,488)	851,660	N/A
1993	2,919,079	2,533,632	115.2	(385,447)	951,873	N/A
1995	3,545,574	3,108,446	114.1	(437,128)	1,086,284	N/A
1997	4,314,708	4,107,390	105.0	(207,318)	1,249,655	N/A
1999	5,035,497	4,817,115	104.5	(218,382)	1,341,036	N/A

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Non-Uniformed Employees Pension Plan

Actuarial Valuation Date January 1,	Actuarial Value of Assets	Accrued Liability	Percentage Funded (1)/(2)	Unfunded (Assets in Excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded Accrued Liability as a Percentage of Payroll (4)/(5)
1989	\$ 179,534	\$ 117,187	153.2%	\$ (62,347)	\$ 467,019	N/A
1991	245,405	230,099	106.7	(15,306)	576,260	N/A
1993	346,810	564,841	61.3	218,031	655,766	33.2%
1995	481,306	599,411	80.3	118,105	726,902	16.2
1997	693,477	758,055	91.5	64,578	838,003	7.7
1999	896,419	1,216,989	73.7	320,570	843,829	38.0

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Schedule of Contributions from Employer and Other Contributing Entities

Police Pension Plan

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1997	\$ 87,741	100%
1998	85,401	100
1999	113,532	100
2000	99,343	100
2001	155,882	100

Non-Uniformed Employees Pension Plan

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1997	\$ 79,137	100%
1998	82,321	100
1999	89,895	100
2000	90,802	127
2001	145,846	100

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Actuarial valuation information as of the latest actuarial valuation date follows:

Police Pension Plan

Contribution rate	12.39%
Actuarial valuation date.....	January 1, 1999
Actuarial cost method	Entry age normal cost
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method.....	Fair value
Actuarial assumptions	
Investment rate of return*	8%
Projected salary increases*	5%

*Includes inflation

Non-Uniformed Employees Pension Plan

Contribution rate	10.76%
Actuarial valuation date.....	January 1, 1999
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar
Remaining amortization period	18 years
Asset valuation method.....	Fair value
Actuarial assumptions	
Investment rate of return*	6%
Projected salary increases*	3%

*Includes inflation

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE M PENSION PLAN - SEWER AUTHORITY

Plan Description

The Sewer Authority pension plan is a single-employer, defined benefit pension plan controlled by the provisions of Resolution No. 95-4 adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Benefit Provisions

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

Contributions

In accordance with the plan's governing resolution, members are not required to contribute to the plan.

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and funded through investment earnings.

Annual Pension Cost

The Sewer Authority's annual pension cost of \$36,817 was equal to the Sewer Authority's required and actual contributions. Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included as part of the January 1, 1997 valuation were (a) 6.5% investment rate of return (net of expenses) and (b) projected salary increases of 5.71% per year. The actuarial value of plan assets was determined by fair value as of the valuation date.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

Three-Year Trend Information

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ 6,224	100%
1999	36,299	100
2000	36,733	100
2001	36,817	100

Schedule of Funding Progress

<u>Actuarial Valuation Date January 1,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funde Ratio (a)/(b)</u>
1997	\$ 297,163	\$ 387,071	\$ 89,908	76.7
1999	404,606	489,872	85,266	82.5

NOTE N LONG-TERM SERVICE AGREEMENT

The Sewer Authority has a service agreement with the Montgomery County Sewer Authority for treatment of sewage collected by the Sewer Authority, whereby the Sewer Authority pays a fee to the Montgomery County Sewer Authority each calendar quarter. The original agreement was dated June 1964 and stipulates a fee based on usage until the year 2006, at which time the fee is subject to change.

The Sewer Authority paid \$187,177 in fees during the year ended June 30, 2001.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE O CONTRIBUTED CAPITAL

Municipal Authority

Montgomery County Open Space Acquisition Grant

During 1994, the Municipal Authority received a capital contribution in the amount of \$1,184,644 from the Township as a subrecipient of the Montgomery County Open Space Acquisition Grant awarded to the Township. Accordingly, the deed to the General Washington Recreation Center was recorded as such, that parcel A was purchased, in part, with funds provided by the Montgomery County Open Space Grant and shall be maintained as open space in accordance with the Montgomery County Open Space Program.

Commonwealth of Pennsylvania Legislative Initiative Program Grant

During 1995, the Municipal Authority received a capital contribution in the amount of \$20,000 from the Commonwealth of Pennsylvania Department of Community Affairs. The grant proceeds were used for making the ice skating rink more comfortable and safer for recreational use by the general public.

Sewer Authority

Contributed capital consists of sewer connection fees paid by property owners and portions of the sewer system constructed by developers.

Assets acquired by contributed capital are depreciated over the life of the sewer system. An amount equal to the depreciation is transferred to retained earnings on the statement of revenues, expenditures and changes in retained earnings (deficit).

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

Arbitration Claim - Component Unit

The Montgomery County Sewer Authority has initiated an arbitration claim against the Sewer Authority as the result of a dispute over treatment charges. The Sewer Authority is vigorously defending this claim, but the outcome cannot be assessed. The Sewer Authority is placing the disputed amounts in an escrow amount pending the final disposition of the claim. As of June 30, 2001, the total amount in escrow was \$215,625.

NOTE Q RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. It is the policy of the Township to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE R PRIOR PERIOD ADJUSTMENT – COMPONENT UNITS

Sewer Authority

During the year ended June 30, 2001, an error was discovered where the fair market value of investments was overstated by \$77,132 as of June 30, 2000. Of this amount, \$23,005 was recorded in the year ended June 30, 1999.

Also, during the year ended June 30, 2001, a yield reduction and arbitrage rebate payment of \$60,158 was required. A portion of this payment, \$9,589, relates to periods ending prior to June 30, 2000.

Retained earnings has been restated for these items as follows:

Retained earnings, June 30, 1999	\$ 4,058,007
Fair market value adjustment	(23,005)
Yield reduction and arbitrage rebate	<u>(9,589)</u>
RETAINED EARNINGS, JUNE 30, 1999	\$ <u>4,025,413</u>

The financial statements for the year ended June 30, 2000, have been restated to reflect the effect of the correction. As a result, income was reduced by \$67,783.

TOWNSHIP OF LOWER PROVIDENCE

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Municipal Authority

During the year ended December 31, 2001, two changes were made to the Authority's retained earnings to properly account for the following previously unrecorded liabilities.

Accumulated deficit, December 31, 2000	\$ (5,633,908)
Accrued interest payable to Township	(112,288)
Accounts payable for ammonia leaks	<u>(12,123)</u>
ACCUMULATED DEFICIT, DECEMBER 31, 2000	\$ <u>(5,758,319)</u>

NOTE S SUBSEQUENT EVENT

In January 2002, the Township passed two resolutions. The first resolution terminated the relationship between the General Washington Country Club, owned by the Municipal Authority, and Community Sports Partners, LLP, which has recently managed the club. The Township assumed operations of the golf course and created a new enterprise fund to account for the activity. The second resolution requested the Municipal Authority to convey to the Township all the assets of the Authority. In February 2002, the Municipal Authority agreed to deed over the assets to the Township.

Subsequent to the above events, all of the Authority board members and the solicitor resigned.



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Independent Auditors' Report on Additional Information

To the Board of Supervisors
Township of Lower Providence
Eagleville, Pennsylvania

Our report on our audit of the general purpose financial statements of the Township of Lower Providence, Eagleville, Pennsylvania, for 2001 appears on page 1. That audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Maillie, Falconiero + Company, LLP

February 14, 2002

TOWNSHIP OF LOWER PROVIDENCE
SCHEDULE OF SELECTED REVENUES AND EXPENSES
BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2001

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
TAXES			
Real estate taxes			
Current	\$ 785,000	\$ 774,547	\$ (10,453)
Delinquent	10,000	15,279	5,279
Interim	20,000	17,207	(2,793)
Per capita tax			
Current	55,000	56,339	1,339
Delinquent	5,000	9,105	4,105
Real estate transfer tax	500,000	707,938	207,938
Earned income taxes	2,900,000	3,235,512	335,512
Occupational privilege taxes	48,000	41,940	(6,060)
Other	2,600	469	(2,131)
	<u>\$ 4,325,600</u>	<u>\$ 4,858,336</u>	<u>\$ 532,736</u>
GENERAL GOVERNMENT			
Salaries and wages	\$ 288,052	\$ 256,486	\$ 31,566
Commissions on tax collections	26,400	26,301	99
Contracted services	157,655	161,940	(4,285)
Engineering	30,000	46,299	(16,299)
General expenses	139,800	168,465	(28,665)
Legal and accounting	143,880	142,194	1,686
Repairs and maintenance	4,500	11,839	(7,339)
Capital outlay	12,500	13,006	(506)
	<u>\$ 802,787</u>	<u>\$ 826,530</u>	<u>\$ (23,743)</u>
PUBLIC SAFETY			
Salaries and wages	\$ 1,927,804	\$ 1,863,675	\$ 64,129
Contributions	266,000	306,242	(40,242)
Contracted services	44,146	79,124	(34,978)
General expenses	127,085	161,493	(34,408)
Hydrant rental	77,000	79,558	(2,558)
Repairs and maintenance	21,200	21,180	20
Capital outlay	189,245	206,993	(17,748)
	<u>\$ 2,652,480</u>	<u>\$ 2,718,265</u>	<u>\$ (65,785)</u>