

TOWNSHIP OF LOWER PROVIDENCE

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2004



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 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 the Township of Lower Providence, Eagleville, Pennsylvania, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Lower Providence's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lower Providence Township Sewer Authority, which represent 62%, 60% and 16% of the assets, net assets and revenues, respectively, of the Township of Lower Providence. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lower Providence Township Sewer Authority, 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 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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 the Township of Lower Providence, Eagleville, Pennsylvania, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

As described in Note A to the financial statements, the Township adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments* and Statement No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus* as of January 1, 2004. This results in a change in the format and content of the financial statements.

The management's discussion and analysis, budgetary comparison information and pension plan funding progress on pages 5 through 12 and 49 through 51 and 52 and 53 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Lower Providence, Eagleville, Pennsylvania's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Maillie, Falconiero + Company

January 31, 2005

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

Our discussion and analysis of the Township of Lower Providence's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Township's financial statements, which begin with the statement of net assets.

FINANCIAL HIGHLIGHTS

- First year for GASB Statement No. 34 reporting compliance.
- The assets of the Township exceeded its liabilities by \$13,659,149.
- The Township's total net assets increased by \$1,951,396.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Township's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Township. The components of the report include the independent auditors' report, management's discussion and analysis, government-wide financial statements, fund financial statements and notes to the basic financial statements. This report also contains other required and supplementary information in addition to the basic financial statements.

The independent auditors' report briefly describes the audit engagement and also renders an opinion as to the material components of the Township's financial position.

Management's discussion and analysis (MD&A), prepared by Township management, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the statement of net assets, statement of activities, fund financial statements and the notes to the basic financial statements. Statements of net assets and activities focus on entity-wide presentation using the accrual basis of accounting. They are designed to be more corporate-like in that all activities are consolidated into a total for the Township.

- The statement of net assets focuses on resources available for future operations. This statement presents a snapshot view of the assets the Township owns, the liabilities it owes and the net difference.

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

- The statement of activities focuses on gross and net costs of Township programs and the extent to which such programs rely upon taxes and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by other sources.
- Fund financial statements focus separately on major Governmental Funds and Fiduciary Funds. Governmental Funds statements follow the more traditional presentation of financial statements. The Township's major Governmental Funds are presented in their own columns, and the remaining funds are combined into a column titled "Other Governmental Funds." Statements for the Township's Fiduciary Funds follow the Governmental Funds and include net assets, revenues, expenses and changes in net assets and cash flows. Fiduciary Funds are used to account for resources for the police and non-uniformed pension plans. Fiduciary Funds are not reflected in the government-wide statements because the Township cannot use these assets to finance operations.
- The notes to the basic financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Township's financial condition.
- Other required supplementary information is additional information consisting of budgetary comparisons for the General Fund.
- Other supplementary information consists of a combining balance sheet and combining schedule of revenues, expenditures and changes in fund balances for the Other Governmental Funds.

REPORTING THE TOWNSHIP AS A WHOLE

Statement of Net Assets and Statement of Activities

Our analysis of the Township as a whole begins with the statement of net assets. One of the most important questions asked about the Township's finances is, "Is the Township as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the Township as a whole and about its activities in a way that helps answer this question. In these statements, we divide the Township into three kinds of activities:

- **Governmental Activities** - Most of the Township's basic services are reported here, including police, public works, planning and zoning, codes and administration. Real estate and earned income taxes, fees and charges and grants finance most of these activities.

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

- **Business-Type Activities** - The Solid Waste Fund charges a fee to customers to cover the cost of trash collection and recycling provided by J. P. Mascaro & Sons.
- **Component Units** - The Township includes two separate legal entities in this report--the Municipal Authority and the Sewer Authority. Although legally separate, these component units are important because the Township is financially accountable for them. Additional financial information regarding the Township's component units can be found in the statement of net assets and statement of activities of this report. Separately audited annual financial reports of these component units may be obtained from the Township's Director of Finance.

Statement of Net Assets

The analysis below focuses on the net assets (Table 1) and the changes in net assets (Table 2) of the Township's governmental and business-type activities. However, since this is the first year that the Township of Lower Providence has prepared financial statements following GASB Statement No. 34, comparative data from fiscal year 2003 is not available. In future years, when prior year information is available, a comparative analysis will be presented.

| Table 1 | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Totals</u> |
|--|------------------------------------|--|----------------------|
| ASSETS | | | |
| Current and other assets | \$ 5,613,236 | \$ 839,648 | \$ 6,452,884 |
| Capital assets | <u>12,368,314</u> | <u>3,561,017</u> | <u>15,929,331</u> |
| TOTAL ASSETS | <u>17,981,550</u> | <u>4,400,665</u> | <u>22,382,215</u> |
| LIABILITIES | | | |
| Current and other liabilities | 1,077,398 | 4,810 | 1,082,208 |
| Long-term liabilities | <u>7,640,858</u> | - | <u>7,640,858</u> |
| TOTAL LIABILITIES | <u>8,718,256</u> | <u>4,810</u> | <u>8,723,066</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 4,497,763 | 3,561,017 | 8,058,780 |
| Unrestricted | <u>4,765,531</u> | <u>834,838</u> | <u>5,600,369</u> |
| TOTAL NET ASSETS | <u>\$ 9,263,294</u> | <u>\$ 4,395,855</u> | <u>\$ 13,659,149</u> |

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

Cash and investments represent 28% of the Township of Lower Providence's total governmental assets.

By far the largest portion of the Township's assets, 69%, reflects its investments in capital assets (e.g., land, buildings, streets, recreation equipment). The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending.

Accumulated depreciation reflects 13% of total capital assets for governmental activities and 19% of total capital assets for business-type activities. The low percentage rates reflect the Township's continued commitment to provide services through effective and efficient use of resources.

Total revenues exceed total expenses by \$2,004,209 for governmental activities and total expenses exceeded total revenues by \$52,813 for business-type activities. This indicates that the Township is operating at a level to meet its operating commitments.

Governmental Activities

The Township generates governmental (General Fund) revenues from a variety of sources. Total revenue for governmental activities for fiscal 2004 was \$11,128,819.

The Township's governmental programs (General Fund) are broken down into six main cost centers, including operating; general government; police, health and public safety; roads and parks; police and employee pension and benefits costs; and planning and code enforcement. Total expenditures for fiscal 2004 were \$9,124,610. Expenditures by source were as follows:

Table 2

| | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Totals</u> |
|------------------------------------|------------------------------------|--|----------------------|
| REVENUES | | | |
| Program revenues | | | |
| Charges for services | \$ 2,508,743 | \$ 1,765,681 | \$ 4,274,424 |
| Operating grants and contributions | 1,113,504 | - | 1,113,504 |
| General revenues | | | |
| Property taxes | 6,509,892 | - | 6,509,892 |
| Investment earnings | 112,703 | 1,973 | 114,676 |
| Contributions | 583,577 | - | 583,577 |
| Miscellaneous | 300,400 | - | 300,400 |
| TOTAL FORWARD | \$ 11,128,819 | \$ 1,767,654 | \$ 12,896,473 |

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

Table 2 - cont'd.

| | Governmental Activities | Business- Type Activities | Totals |
|---|----------------------------|---------------------------------|----------------------|
| REVENUES | | | |
| TOTAL FORWARDED | \$ 11,128,819 | \$ 1,767,654 | \$ 12,896,473 |
| EXPENSES | | | |
| Operating | 2,835 | - | 2,835 |
| General cost | 1,118,115 | - | 1,118,115 |
| Police, health and public safety | 3,109,064 | - | 3,109,064 |
| Roads and parks | 2,328,205 | - | 2,328,205 |
| Police and employee pension and benefit costs | 1,459,616 | - | 1,459,616 |
| Planning and code enforcement | 409,626 | - | 409,626 |
| Interest on long-term debt | 371,759 | - | 371,759 |
| Unallocated depreciation expense | 325,390 | - | 325,390 |
| Solid Waste Fund | - | 1,573,547 | 1,573,547 |
| Municipal Authority | - | 246,920 | 246,920 |
| TOTAL EXPENSES | <u>9,124,610</u> | <u>1,820,467</u> | <u>10,945,077</u> |
| CHANGE IN NET ASSETS | 2,004,209 | (52,813) | 1,951,396 |
| NET ASSETS, BEGINNING | <u>7,259,085</u> | <u>4,448,668</u> | <u>11,707,753</u> |
| NET ASSETS, ENDING | <u>\$ 9,263,294</u> | <u>\$ 4,395,855</u> | <u>\$ 13,659,149</u> |

For the most part, increases in expenses during fiscal 2004 paralleled inflation and growth in the demand for services.

Business-Type Activities

The Township generated business-type revenues from the following:

- **Solid Waste Fund** - The Township is responsible for the billing of trash fees. The semi-annual fee is \$133.74 per household. Residents are billed by a third-party agency and remitted to the Township of Lower Providence, who forwards the funds to J. P. Mascaro & Sons. The contract with J. P. Mascaro & Sons is for the term March 1, 2002 to February 28, 2005.

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

- **Municipal Authority** - On May 4, 1964, an ordinance enacted by the Supervisors of the Township of Lower Providence created the Lower Providence Township Industrial Development Authority. By Articles of Amendment, approved May 18, 1994, the Articles of Incorporation were amended to change the name to the Lower Providence Municipal Authority (the "Authority") and to provide that the term of existence of the Authority shall be for 50 years from the date of such approval. The Authority is an "Operating Authority," the purpose of which is to acquire, improve and maintain the General Washington recreational facility.

Capital Assets and Debt Administration

Capital Assets

The Township of Lower Providence's investment in capital assets for its governmental and business-type activities as of December 31, 2004, totals \$15,929,331 (net of accumulated depreciation). Township investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment and infrastructure. Infrastructure includes roads, bridges, storm water lines and traffic signals.

This year's major additions included:

| | | |
|---|----|---------|
| • Park upgrades and equipment | \$ | 60,180 |
| • Vehicles purchased for Police and Public Work | | 64,527 |
| • Road reconstruction | | 884,879 |

However, since this is the first year that the Township of Lower Providence has prepared financial statements following GASB Statement No. 34, comparative data from fiscal year 2003 is not available. In future years, when prior year information is available, a comparative analysis will be presented.

| | | |
|----------------------------|----|-------------------|
| Land and improvements | \$ | 7,602,265 |
| Buildings and improvements | | 3,144,115 |
| Furniture and equipment | | 797,250 |
| Infrastructure | | <u>824,684</u> |
| | \$ | <u>12,368,314</u> |

All assets of the primary government are depreciated using the straight-line method.

Additional information on the Township's capital assets can be found in the notes to the financial statements.

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

Debt

At year end, the Township had \$7,870,551 in outstanding debt compared to \$8,240,052 last year for governmental activities. \$379,693 of the debt is due within one year. There is no debt for business-type activities.

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|---------------------|---------------------|
| GENERAL OBLIGATION BONDS/NOTE | | |
| Bonds | | |
| Series of 1994 | \$ - | \$ 115,000 |
| Series of 1995 | 3,150,000 | 3,335,000 |
| Series of 1998 | 4,650,000 | 4,685,000 |
| Note, Series of 1997 | 64,369 | 96,553 |
| | <u>7,864,369</u> | <u>8,231,553</u> |
| CAPITAL LEASE | 6,182 | 8,499 |
| | <u>\$ 7,870,551</u> | <u>\$ 8,240,052</u> |

Additional information on the Township's debt can be found in Notes F and G to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township of Lower Providence, Montgomery County, Pennsylvania, is located along several major transportation corridors, which include Route 422, Route 363 and Ridge Pike. The Township of Lower Providence continues to enjoy moderate growth, which in turn has transformed this municipality from a suburban bedroom community to a regional urbanized community. One of Montgomery's County's largest industrial parks, The Valley Forge Industrial Park, exists in the Township of Lower Providence. Over 1,200 individuals work in this corporate center consisting of major corporations such as Lockheed Martin, Quest Diagnostics, PMC Telecommunications Facility, Verizon and Gannett Fleming Engineering.

The Township of Lower Providence is also experiencing a tremendous amount of growth in the retail and shopping center uses. Several major shopping centers have expanded including, but not limited to, the Audubon Shopping Center. The Township is also showing significant growth in the tourism market with the highly anticipated opening of a new Homewood Suites Hotel in 2005 and new franchise restaurants, such as Qdoba and Bertucci's. Employment growth is expected to grow to double digit figures in the Township over the next several years due to local tourism destination points, such as the proposed National Revolutionary Museum at the Valley Forge National Park and Mill Grove Park in Audubon. Both of these facilities are major tourist destinations attracting an estimated one million visitors each year.

TOWNSHIP OF LOWER PROVIDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2004

The Township of Lower Providence serves an area of roughly 15.6 square miles. This area contains a population of 22,390 residents according to the 2000 U.S. Census Bureau. The current population estimate for 2005 is 24,350 residents. There are 7,446 households and 5,606 families residing in the Township. The population density is 1,458 people per square mile. There are 7,690 housing units at an average density of 501 persons per square mile. The median residential home price in the Township is \$225,000.

Although many surrounding townships have also implemented the collection of earned income taxes in the past few years, the resulting shortfall has been offset by the continuing housing growth in the Township of Lower Providence.

Continued building activity and redevelopment in the Township, both business and residential, indicates confidence in the regional economic outlook. As shown in the data below, the median income of the residents of the Township of Lower Providence is almost equal to Montgomery County as a whole, whereas, both Montgomery County and the Township of Lower Providence are substantially wealthier than the Commonwealth of Pennsylvania and the nation. The factors that create this wealth, such as higher educational achievement and an abundance of higher paying technical and service jobs, continue to be the area's strong points.

| | <u>Township of Lower Providence</u> | <u>Montgomery County</u> | <u>Pennsylvania</u> | <u>United States</u> |
|----------------------|---|------------------------------|---------------------|--------------------------|
| Per capita income | \$ 26,186 | \$ 30,898 | \$ 20,809 | \$ 24,889 |
| Median family income | 74,902 | 72,183 | 39,560 | 50,890 |

Source: U.S. Census Bureau (2000 Census)

2005 Budget

The financial and economic indicators for the Township are uncertain for 2005. Revenues projected in the 2005 budget are of the conservative nature based on economic indicators. As in the past, all departments must aggressively manage their respective budget to ensure that the Township of Lower Providence is in excellent financial position.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for funds it receives and disburses. If you have any questions about this report or to request additional finance information (to include component units), please contact the Director of Finance at 100 Parklane Drive, Eagleville, PA 19403.

| <u>Primary Government</u> | | <u>Component</u> |
|---------------------------|----------------------|----------------------|
| <u>Business-Type</u> | | <u>Unit</u> |
| <u>Activities</u> | <u>Totals</u> | <u>Sewer</u> |
| | | <u>Authority</u> |
| \$ 71,678 | \$ 4,706,783 | \$ 3,533,985 |
| - | - | 164,055 |
| 216 | 314,065 | 7,343,351 |
| - | - | 2,267,244 |
| 277,381 | 860,352 | 879,172 |
| - | 81,311 | 3,938 |
| 490,373 | 490,373 | - |
| - | - | 6,740,059 |
| 4,137,840 | 12,055,817 | 247,013 |
| 54,100 | 4,058,784 | - |
| 185,482 | 2,133,203 | 286,565 |
| - | 884,879 | 22,026,995 |
| (816,405) | (3,203,352) | (7,620,352) |
| - | - | 1,065,919 |
| <u>\$ 4,400,665</u> | <u>\$ 22,382,215</u> | <u>\$ 36,937,944</u> |

| Primary Government Business-Type Activities | Totals | Component Unit Sewer Authority |
|---|---------------|---|
| \$ 4,810 | \$ 488,901 | \$ 66,444 |
| - | 147,927 | - |
| - | - | 141,572 |
| - | 48,830 | 149,594 |
| - | 377,184 | 605,000 |
| - | 2,509 | - |
| - | 16,857 | 3,728 |
| - | 7,487,185 | 16,650,000 |
| - | 3,673 | - |
| - | 150,000 | - |
| - | - | (757,347) |
| 4,810 | 8,723,066 | 16,858,991 |
| 3,561,017 | 8,058,780 | 4,425,280 |
| 834,838 | 5,600,369 | 13,222,374 |
| - | - | 2,431,299 |
| 4,395,855 | 13,659,149 | 20,078,953 |
| \$ 4,400,665 | \$ 22,382,215 | \$ 36,937,944 |

Net (Expense) Revenue and Changes in Net Assets

| ies | Capital Grants and Contributions | Primary Government | | | Component Unit |
|-----|--|----------------------------|-----------------------------|----------------------|----------------------|
| | | Governmental Activities | Business-Type Activities | Totals | Sewer Authority |
| \$ | - | \$ (2,835) | \$ - | \$ (2,835) | \$ - |
| | - | (1,118,115) | - | (1,118,115) | - |
| | - | (1,477,295) | - | (1,477,295) | - |
| | - | (942,154) | - | (942,154) | - |
| | - | (1,017,760) | - | (1,017,760) | - |
| | - | (247,055) | - | (247,055) | - |
| | - | (371,759) | - | (371,759) | - |
| | - | (325,390) | - | (325,390) | - |
| | - | <u>(5,502,363)</u> | - | <u>(5,502,363)</u> | - |
| | - | - | 18,720 | 18,720 | - |
| | - | - | (73,506) | (73,506) | - |
| | - | - | (54,786) | (54,786) | - |
| \$ | <u>-</u> | <u>(5,502,363)</u> | <u>(54,786)</u> | <u>(5,557,149)</u> | <u>-</u> |
| \$ | <u>-</u> | | | | <u>(818,506)</u> |
| | | 6,509,892 | - | 6,509,892 | - |
| | | 112,703 | 1,973 | 114,676 | 100,666 |
| | | 583,577 | - | 583,577 | 2,763,113 |
| | | 300,400 | - | 300,400 | - |
| | | <u>7,506,572</u> | <u>1,973</u> | <u>7,508,545</u> | <u>2,863,779</u> |
| | | 2,004,209 | (52,813) | 1,951,396 | 2,045,273 |
| | | <u>7,259,085</u> | <u>4,448,668</u> | <u>11,707,753</u> | <u>18,033,680</u> |
| \$ | <u>-</u> | <u>\$ 9,263,294</u> | <u>\$ 4,395,855</u> | <u>\$ 13,659,149</u> | <u>\$ 20,078,953</u> |

| <u>Highway Improvement Capital Reserve Fund</u> | <u>Unrestricted Capital Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|--------------------------------------|---|---|
| \$ 669,443 | \$ 806,932 | \$ 965,169 | \$ 4,635,105 |
| - | - | 181 | 313,849 |
| - | - | 17,636 | 280,925 |
| - | - | - | 81,311 |
| - | - | - | 6,750 |
| <u>73,685</u> | <u>-</u> | <u>97,283</u> | <u>302,046</u> |
| <u>\$ 743,128</u> | <u>\$ 806,932</u> | <u>\$ 1,080,269</u> | <u>\$ 5,619,986</u> |
| | | | |
| \$ - | \$ - | \$ 6,750 | \$ 6,750 |
| 3,900 | 4,000 | 80,345 | 484,091 |
| - | - | - | 147,927 |
| - | - | - | 71,513 |
| <u>3,900</u> | <u>4,000</u> | <u>87,095</u> | <u>710,281</u> |
| | | | |
| - | - | - | 2,374,371 |
| - | - | 678,728 | 678,728 |
| - | - | 4,043 | 4,043 |
| <u>739,228</u> | <u>802,932</u> | <u>310,403</u> | <u>1,852,563</u> |
| <u>739,228</u> | <u>802,932</u> | <u>993,174</u> | <u>4,909,705</u> |
| | | | |
| <u>\$ 743,128</u> | <u>\$ 806,932</u> | <u>\$ 1,080,269</u> | <u>\$ 5,619,986</u> |

TOWNSHIP OF LOWER PROVIDENCE

**RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

December 31, 2004

| | |
|--|---------------------|
| TOTAL GOVERNMENTAL FUNDS BALANCES | \$ 4,909,705 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | |
| Land and improvements | 7,917,977 |
| Buildings and improvements | 4,004,684 |
| Furniture and equipment | 1,947,721 |
| Infrastructure | 884,879 |
| Accumulated depreciation | (2,386,947) |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | |
| Accrued interest | (48,830) |
| Capital lease payable | (6,182) |
| Compensated absences | (166,857) |
| Bonds and notes payable in future years | (7,864,369) |
| Some of the Township's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | |
| | <u>71,513</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 9,263,294</u> |

See accompanying notes to the basic financial statements.

| Highway Improvement Capital Reserve Fund | Unrestricted Capital Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------------------|--------------------------------|--------------------------------|
| \$ - | \$ - | \$ 886,222 | \$ 6,517,787 |
| - | - | 391,066 | 1,113,504 |
| - | - | - | 85,579 |
| 10,604 | 10,355 | 35,452 | 112,703 |
| 284,227 | 312,000 | 456,967 | 2,423,164 |
| - | 297,809 | 275,579 | 583,577 |
| - | - | 119,667 | 300,400 |
| <u>294,831</u> | <u>620,164</u> | <u>2,164,953</u> | <u>11,136,714</u> |
| - | - | 2,835 | 2,835 |
| - | - | - | 1,128,169 |
| - | - | 284 | 3,109,064 |
| 160,119 | 366,650 | 1,504,355 | 3,279,943 |
| - | - | 2,521 | 1,524,143 |
| - | - | - | 409,626 |
| - | - | 375,308 | 375,308 |
| - | - | 367,184 | 367,184 |
| <u>160,119</u> | <u>366,650</u> | <u>2,252,487</u> | <u>10,196,272</u> |
| <u>134,712</u> | <u>253,514</u> | <u>(87,534)</u> | <u>940,442</u> |
| - | - | 580,793 | 580,793 |
| - | - | - | (580,793) |
| - | - | 580,793 | - |
| 134,712 | 253,514 | 493,259 | 940,442 |
| <u>604,516</u> | <u>549,418</u> | <u>499,915</u> | <u>3,969,263</u> |
| <u>739,228</u> | <u>\$ 802,932</u> | <u>\$ 993,174</u> | <u>\$ 4,909,705</u> |

TOWNSHIP OF LOWER PROVIDENCE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 940,442

Capital outlays are reported in Governmental Funds 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 outlays exceeds depreciation in the current period. 690,875

Because some property taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year. (7,895)

Repayment of bond, note and capital lease principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets. 369,501

In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave)--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 resources used (essentially, the amounts actually paid). 7,737

Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 3,549

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,004,209

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER PROVIDENCE

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2004

| | Enterprise Funds | | Totals |
|---|-----------------------------|--------------------------------|---------------------|
| | <u>Solid Waste Fund</u> | <u>Municipal Authority</u> | |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 22,207 | \$ 49,471 | \$ 71,678 |
| Investments | 216 | - | 216 |
| Receivables, net | <u>237,470</u> | <u>39,911</u> | <u>277,381</u> |
| TOTAL CURRENT ASSETS | <u>259,893</u> | <u>89,382</u> | <u>349,275</u> |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$816,405 | <u>-</u> | <u>3,561,017</u> | <u>3,561,017</u> |
| DEFERRED CHARGES, net of accumulated amortization of \$293,498 | <u>-</u> | <u>490,373</u> | <u>490,373</u> |
| TOTAL ASSETS | <u>\$ 259,893</u> | <u>\$ 4,140,772</u> | <u>\$ 4,400,665</u> |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ <u>1,535</u> | \$ <u>3,275</u> | \$ <u>4,810</u> |
| NET ASSETS | | | |
| Invested in capital assets | - | 3,561,017 | 3,561,017 |
| Unrestricted | <u>258,358</u> | <u>576,480</u> | <u>834,838</u> |
| TOTAL NET ASSETS | <u>258,358</u> | <u>4,137,497</u> | <u>4,395,855</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 259,893</u> | <u>\$ 4,140,772</u> | <u>\$ 4,400,665</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER PROVIDENCE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2004

| | Enterprise Funds | | Totals |
|--|-------------------|---------------------|---------------------|
| | Solid Waste Fund | Municipal Authority | |
| OPERATING REVENUES | | | |
| Admissions | \$ - | \$ 45,843 | \$ 45,843 |
| Dues and memberships | - | 14,538 | 14,538 |
| Rental fees | - | 73,003 | 73,003 |
| Pro shop sales | - | 15,910 | 15,910 |
| Miscellaneous | - | 24,120 | 24,120 |
| Collections | <u>1,592,267</u> | <u>-</u> | <u>1,592,267</u> |
| TOTAL OPERATING REVENUES | <u>1,592,267</u> | <u>173,414</u> | <u>1,765,681</u> |
| OPERATING EXPENSES | | | |
| Operating expenses | 1,573,547 | 69,260 | 1,642,807 |
| General and administrative | - | 70,532 | 70,532 |
| Amortization | - | 46,448 | 46,448 |
| Depreciation | - | 60,680 | 60,680 |
| TOTAL OPERATING EXPENSES | <u>1,573,547</u> | <u>246,920</u> | <u>1,820,467</u> |
| OPERATING INCOME (LOSS) | 18,720 | (73,506) | (54,786) |
| NONOPERATING REVENUES | | | |
| Earnings on investments | <u>1,110</u> | <u>863</u> | <u>1,973</u> |
| CHANGE IN NET ASSETS | 19,830 | (72,643) | (52,813) |
| NET ASSETS AT BEGINNING OF YEAR | <u>238,528</u> | <u>4,210,140</u> | <u>4,448,668</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 258,358</u> | <u>\$ 4,137,497</u> | <u>\$ 4,395,855</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER PROVIDENCE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2004

| | <u>Enterprise Funds</u> | | |
|---|-----------------------------|--------------------------------|----------------------|
| | <u>Solid Waste Fund</u> | <u>Municipal Authority</u> | <u>Totals</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 1,567,696 | \$ 171,064 | \$ 1,738,760 |
| Payments to employees | - | (72,617) | (72,617) |
| Payments to suppliers | <u>(1,573,546)</u> | <u>(103,964)</u> | <u>(1,677,510)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(5,850)</u> | <u>(5,517)</u> | <u>(11,367)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of investments | (216) | - | (216) |
| Earnings on investments | <u>1,110</u> | <u>863</u> | <u>1,973</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>894</u> | <u>863</u> | <u>1,757</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (4,956) | (4,654) | (9,610) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>27,163</u> | <u>54,125</u> | <u>81,288</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 22,207</u> | <u>\$ 49,471</u> | <u>\$ 71,678</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 18,720 | \$ (73,506) | \$ (54,786) |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities | | | |
| Amortization | - | 46,448 | 46,448 |
| Depreciation | - | 60,680 | 60,680 |
| Increase in receivables, net | (22,986) | (39,911) | (62,897) |
| Increase (decrease) in | | | |
| Accounts payable | (1,584) | 3,122 | 1,538 |
| Deposit payable | <u>-</u> | <u>(2,350)</u> | <u>(2,350)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (5,850)</u> | <u>\$ (5,517)</u> | <u>\$ (11,367)</u> |

See accompanying notes to the basic financial statements.

| <u>Police Pension</u> | <u>Municipal Pension</u> | <u>Totals</u> |
|-----------------------|--------------------------|---------------------|
| \$ - | \$ - | \$ 257,211 |
| 22,170 | 3,700 | 25,870 |
| 8,069,207 | 1,809,068 | 9,878,275 |
| - | - | 258,860 |
| <u>30,595</u> | <u>6,607</u> | <u>37,202</u> |
| \$ <u>8,121,972</u> | \$ <u>1,819,375</u> | <u>10,457,418</u> |
| \$ - | \$ - | 58,279 |
| <u>-</u> | <u>-</u> | <u>457,792</u> |
| <u>-</u> | <u>-</u> | <u>516,071</u> |
| \$ <u>8,121,972</u> | \$ <u>1,819,375</u> | \$ <u>9,941,347</u> |

TOWNSHIP OF LOWER PROVIDENCE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended December 31, 2004

| | <u>Police Pension</u> | <u>Municipal Pension</u> | <u>Totals</u> |
|--|---------------------------|------------------------------|---------------------|
| ADDITIONS | | | |
| Contributions | \$ 197,506 | \$ 123,891 | \$ 321,397 |
| Investment earnings | | | |
| Interest | 388,692 | 84,827 | 473,519 |
| Dividends | 56,278 | 12,488 | 68,766 |
| Net increase in the fair value of investments | <u>456,116</u> | <u>102,302</u> | <u>558,418</u> |
| TOTAL INVESTMENT EARNINGS | 901,086 | 199,617 | 1,100,703 |
| Investment expense | <u>(270,569)</u> | <u>(68,548)</u> | <u>(339,117)</u> |
| NET INVESTMENT EARNINGS | <u>630,517</u> | <u>131,069</u> | <u>761,586</u> |
| TOTAL ADDITIONS | <u>828,023</u> | <u>254,960</u> | <u>1,082,983</u> |
| DEDUCTIONS | | | |
| Insurance | 6,720 | - | 6,720 |
| Benefits | <u>249,369</u> | <u>44,299</u> | <u>293,668</u> |
| TOTAL DEDUCTIONS | <u>256,089</u> | <u>44,299</u> | <u>300,388</u> |
| CHANGE IN NET ASSETS | 571,934 | 210,661 | 782,595 |
| NET ASSETS AT BEGINNING OF YEAR | <u>7,550,038</u> | <u>1,608,714</u> | <u>9,158,752</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 8,121,972</u> | <u>\$ 1,819,375</u> | <u>\$ 9,941,347</u> |

See accompanying notes to the basic financial statements.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Township of Lower Providence (the "Township") is governed by an elected five-member board. As required by U.S. generally accepted accounting principles, these financial statements present the Township of Lower Providence 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 relationship with the Township.

Discretely Presented Component Unit

The following is considered a component unit of the Township and is reported discretely:

Lower Providence Township Sewer Authority

A separate legal entity created to operate a sewage collection system within the Township.

Blended Component Unit

Lower Providence Township Municipal Authority

A separate legal entity created to maintain and operate the General Washington recreational facility.

| | <u>Municipal Authority</u> | <u>Eliminations</u> | <u>Blended Component Unit</u> |
|---|--------------------------------|-----------------------------|---------------------------------------|
| Total assets | \$ 4,140,772 | \$ - | \$ 4,140,772 |
| Total liabilities | <u>11,321,179</u> | <u>(11,317,904)</u> | <u>3,275</u> |
| TOTAL NET ASSETS | \$ <u>(7,180,407)</u> | \$ <u>11,317,904</u> | \$ <u>4,137,497</u> |
| Total operating revenues | \$ 173,414 | \$ - | \$ 173,414 |
| Total operating expenses | 607,294 | (360,374) | 246,920 |
| Total nonoperating revenues (expenses) | <u>(442,272)</u> | <u>443,135</u> | <u>863</u> |
| CHANGE IN NET ASSETS | \$ <u>(876,152)</u> | \$ <u>803,509</u> | \$ <u>(72,643)</u> |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

The above component unit issues a separately audited annual financial report. Copies of this component unit report may be obtained from the Township Finance Director.

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

- a. The organizations are legally separate (can sue and be sued in their own name).
- b. The Township appoints a voting majority of the organizations' boards.
- c. The Township is able to impose its will on the organizations.
- d. The organizations have the potential to impose a financial benefit/burden on the Township.
- e. There is a fiscal dependency by the organizations on the Township.
- f. The organizations could not be included as a part of another reporting entity.
- g. The organizations' governing bodies are not substantively the same as the primary government.
- h. The organizations do not provide services entirely to the primary government.

Changes in Accounting Methods and Basis of Financial Statement Presentation

The accompanying financial statements of the Township have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. This statement established new financial reporting requirements for state and local governments throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

The Township has adopted the provisions of GASB Statement No. 34 for its fiscal year ended December 31, 2004. With the implementation of GASB Statement No. 34, the Township has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement No. 34. Therefore, the Township has implemented the following GASB Statements in the current fiscal year:

- Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*,
- Statement No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus* and
- Statement No. 38, *Certain Financial Statement Note Disclosures*.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government and its component units, except for Fiduciary Funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded 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.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Township and for each function or program of the Township's governmental activities. 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 and grants and contributions that are restricted to meeting the operational or capital requirements of 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 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. Expenses reported for functional activities include allocated indirect expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the Township. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Other funds are aggregated and presented in a single column.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded 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 recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major Governmental Funds:

The *General Fund* is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. The principal activities accounted for in the General Fund are general government, public safety, public services and recreation. Those activities are funded principally by property taxes, state shared taxes and grants from other governmental units.

The *Highway Improvement Capital Reserve Fund* (a Capital Project Fund) is used principally for capital improvement activity.

The *Unrestricted Capital Fund* (a Capital Project Fund) is used to account for major outlays for capital assets and improvements.

The Township reports the following major Proprietary Activities:

The *Solid Waste Fund* accounts for the Township's waste collection and disposal systems.

The *Municipal Authority* (a component unit) accounts for the maintenance and operation of the General Washington recreational facility.

Additionally, the Township reports the following fund types:

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 capital improvement activity and disposition of state liquid fuels highway aid funding. Included in these funds are the Library, Police Motorcycle, Parks and Recreation Operating, Highway Aid, Tree and Self-Insurance Funds.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The *Capital Project Funds* include the accounts of the Public Works Capital Reserve and Parks and Recreation Capital Reserve Funds.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Fiduciary Funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. Trust Funds include the Police Pension and Non-Uniform Pension Funds and account for assets held by the Township under the terms of a formal trust agreement. The Agency Fund includes the Escrow Fund, is custodial in nature and does not present results of operations or have a measurement focus. The funds are accounted for using the modified accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and Proprietary Funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

During 1998, the Township adopted Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires the Township and its component units to record investments at fair value. The government and external investment pools operate in accordance with appropriate state laws and regulations.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Township defines capital assets as assets with an initial, individual cost equal to or greater than \$5,000 and/or 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 market value at the date of donation.

The costs 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 primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 10-40 |
| Infrastructure | 5-40 |
| Furniture and equipment | 3-20 |

Compensated Absences

It is the Township's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, Proprietary and Fiduciary Funds financial statements.

Long-Term Obligations

In the government-wide financial statements, and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Real Estate Tax Calendar and Reserve

The original tax duplicate is received by the Township and given to the tax collector for mailing by February 15. The discount period extends through April 15, followed by the flat period through June 15 and ends with the penalty period after June 15. The penalty is 10%. Any unpaid taxes at the end of the year are required to be liened by January 16 with the county.

Receivables and Payables

External transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE B CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The primary government's cash and cash equivalents consist of deposits with financial institutions. The following is a schedule of the primary government's cash and cash equivalents at December 31, 2004, categorized by risk:

| | <u>Category</u> | | | <u>Bank Balance</u> | <u>Carrying Amount</u> |
|--|-------------------|-------------|---------------------|-------------------------|----------------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | | |
| CASH AND CASH EQUIVALENTS | | | | | |
| Deposits with financial institutions | \$ 100,000 | \$ - | \$ - | \$ 5,064,170 | \$ 4,989,489 |
| Petty cash | - | - | - | - | 375 |
| | <u>\$ 100,000</u> | <u>\$ -</u> | <u>\$ 4,964,170</u> | <u>\$ 5,064,170</u> | <u>\$ 4,989,864</u> |

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.

Deposits in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts. Deposits and investments are also insured under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly whereby 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 FDIC limits.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Cash and cash equivalents at June 30, 2004, consisted of:

ADMINISTRATIVE EXPENSE FUNDS

| | | |
|------------------------|----|------------|
| Cash | | |
| Bank checking accounts | \$ | 620,147 |
| Petty cash | | <u>300</u> |
| | | 620,447 |

**CAPITAL RESERVE FUNDS (including
1995 Bond Issues)**

| | | |
|------------------------------|--|------------------|
| Cash, bank checking accounts | | 912,600 |
| U.S. Treasury money market | | <u>2,164,993</u> |

| | | |
|---|-----------|-------------------------|
| TOTAL CASH AND CASH EQUIVALENTS | \$ | <u>3,698,040</u> |
|---|-----------|-------------------------|

| | | |
|--|----|----------------|
| Unrestricted cash and cash equivalents | \$ | 3,533,985 |
| Restricted cash and cash equivalents | | <u>164,055</u> |

| | | |
|---|-----------|-------------------------|
| TOTAL CASH AND CASH EQUIVALENTS | \$ | <u>3,698,040</u> |
|---|-----------|-------------------------|

The restricted funds are held by the Trustee in accordance with the provisions of the Guaranteed Sewer Revenue Bonds, Series of 1992, Trust Indenture.

The carrying amount of the Sewer Authority's deposits with financial institutions was \$1,532,747 at June 30, 2004. The bank balance was \$1,534,158 at June 30, 2004. The bank balance is categorized as follows:

| | | |
|--|----|------------------|
| Amount insured by the FDIC and FSLIC or collateralized with securities held by the Authority in its name | \$ | 100,000 |
| Collateralized with securities held by the pledging financial institution's trust department but not in the name of the Authority | | <u>1,434,158</u> |
| | \$ | <u>1,534,158</u> |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Investments

The primary government's investments consist of deposits with financial institutions and U.S. Government and agency securities. The following is a schedule of the primary government's investments at December 31, 2004, categorized by risk:

| | Category | | | Fair Value | Carrying Amount |
|-----------------------------|----------|--------------|------|--------------|-----------------|
| | 1 | 2 | 3 | | |
| INVESTMENTS | | | | | |
| U.S. Government obligations | \$ - | \$ 9,878,275 | \$ - | \$ 9,878,275 | \$ 9,878,275 |

Category

- 1 Insured or registered 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.

Amounts invested in government and external investment pools are recorded at cost. The reported value of the pool is equal to the fair value of the pool shares. Money market mutual funds are not categorized in accordance with GASB Statement No. 3 because they are not evidenced by securities that exist in physical or book entry form. The carrying value and fair value of these money market mutual funds in the primary government at December 31, 2004, are \$314,065.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Investments made by the Sewer Authority are summarized below.

| | |
|--------------------------------|---------------------|
| Investments held by trustee | |
| Certificates of deposit | |
| Due 11/01/04, \$2,267,244 face | \$ 2,267,244 |
| Due 8/02/04, \$7,343,351 face | <u>7,343,351</u> |
| | <u>\$ 9,610,595</u> |
| Unrestricted investments | \$ 7,343,351 |
| Restricted investments | <u>2,267,244</u> |
| | <u>\$ 9,610,595</u> |

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below.

| | Category | | | Carrying Amount |
|-------------------|-------------|-------------|---------------------|---------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| Other investments | \$ <u>-</u> | \$ <u>-</u> | \$ <u>9,610,595</u> | \$ <u>9,610,595</u> |

Category

- 1 Insured or registered or securities held by the Authority or by its agent in the Authority's name.
- 2 Uninsured and unregistered with securities held by the counterparty's trust department or agent in the Authority's name.
- 3 Uninsured and unregistered with securities held by the counterparty or its trust department or agent but not in the Authority's name.

Investments are carried at quoted market value.

| Restricted Fund | Other Governmental Funds | Total Governmental Funds | Proprietary Fund Type Enterprise Funds | Totals | Sewer Authority |
|--------------------|--------------------------------|--------------------------------|---|------------|--------------------|
| - | \$ 17,636 | \$ 117,218 | \$ - | \$ 117,218 | \$ - |
| - | - | 163,707 | - | 163,707 | - |
| - | - | 77,811 | - | 77,811 | - |
| - | - | - | 245,705 | 245,705 | - |
| - | - | 53,267 | - | 53,267 | - |
| - | 97,283 | 170,968 | 39,911 | 210,879 | 48,136 |
| - | - | - | - | - | 228,184 |
| - | - | - | - | - | 602,852 |
| - | - | - | (8,235) | (8,235) | - |
| - | \$ 114,919 | \$ 582,971 | \$ 277,381 | \$ 860,352 | \$ 879,172 |

| Debt Service Fund | Totals |
|-------------------------|------------|
| 355,793 | \$ 580,793 |

| <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-------------------------|-----------------------|---------------------------|
| \$ <u> -</u> | \$ <u> -</u> | \$ <u> 7,480,097</u> |
| 6,680 | - | 437,880 |
| - | - | 4,004,684 |
| 124,707 | (80,462) | 1,947,721 |
| 884,879 | - | 884,879 |
| <u> 1,016,266</u> | <u> (80,462)</u> | <u> 7,275,164</u> |
| 21,810 | - | 315,712 |
| 72,389 | - | 860,569 |
| 170,996 | (80,462) | 1,150,471 |
| 60,195 | - | 60,195 |
| <u> 325,390</u> | <u> (80,462)</u> | <u> 2,386,947</u> |
| <u> 690,876</u> | <u> -</u> | <u> 4,888,217</u> |
| \$ <u> 690,876</u> | \$ <u> -</u> | \$ <u> 12,368,314</u> |

| <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--------------------|------------------|-----------------------|
| \$ - | \$ - | \$ 3,185,540 |
| - | - | 952,300 |
| - | - | 54,100 |
| - | - | <u>185,482</u> |
| - | - | <u>1,191,882</u> |
| (47,615) | - | (714,225) |
| (700) | - | (50,600) |
| (12,365) | - | (51,580) |
| <u>(60,680)</u> | - | <u>(816,405)</u> |
| (60,680) | - | <u>375,477</u> |
| \$ <u>(60,680)</u> | \$ - | \$ <u>3,561,017</u> |

| <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|---------------------|--------------------|-----------------------|---------------------------------|-----------------------|
| \$ 2,149,477 | \$ - | \$ 6,740,059 | \$ - | \$ 6,740,059 |
| 700,279 | - | 22,026,995 | 7,341,764 | 14,685,231 |
| - | - | 247,013 | 91,750 | 155,263 |
| <u>38,718</u> | <u>(55,950)</u> | <u>286,565</u> | <u>186,838</u> | <u>99,727</u> |
| \$ <u>2,888,474</u> | \$ <u>(55,950)</u> | \$ <u>29,300,632</u> | \$ <u>7,620,352</u> | \$ <u>21,680,280</u> |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE F BONDED DEBT

Bonded debt payable at December 31, 2004, is comprised of the following individual issues:

| | |
|---|------------------------|
| General Obligation Bonds, Series of 1995, \$4,495,000 due in annual principal installments ranging from \$75,000 to \$240,000 through April 15, 2022, interest rate from 2.5% to 6% | \$ 3,150,000 |
| General Obligation Bonds, Series of 1998, \$4,815,000 due in annual principal installments ranging from \$5,000 to \$340,000 through December 15, 2024, interest rate is variable from 4.2% to 6% | 4,650,000 |
| General Obligation Note, Series of 1997, \$321,841 due in annual principal installments of \$32,184 through October 1, 2006, noninterest bearing | <u>64,369</u> |
| | <u>\$ 7,864,369</u> |

The annual requirements to amortize all primary government debt outstanding as of December 31, 2004, including interest payments, are as follows:

| <u>Year Ending December 31,</u> | <u>Governmental Activities</u> | |
|-------------------------------------|--------------------------------|------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2005 | \$ 377,184 | \$ 359,062 |
| 2006 | 397,185 | 343,637 |
| 2007 | 380,000 | 327,080 |
| 2008 | 395,000 | 309,660 |
| 2009 | 415,000 | 290,940 |
| 2010 to 2014 | 1,735,000 | 1,202,553 |
| 2015 to 2019 | 2,030,000 | 781,696 |
| 2020 to 2024 | <u>2,135,000</u> | <u>264,865</u> |
| | <u>\$ 7,864,369</u> | <u>\$ 3,879,493</u> |

| <u>Issues or Additions</u> | <u>Retirements or Payments</u> | <u>Balance December 31, 2004</u> | <u>Due Within One Year</u> |
|----------------------------|--------------------------------|----------------------------------|----------------------------|
| \$ - | \$ 32,184 | \$ 64,369 | \$ 32,184 |
| - | 115,000 | - | - |
| - | 185,000 | 3,150,000 | 190,000 |
| - | 35,000 | 4,650,000 | 155,000 |
| <u>\$ -</u> | <u>\$ 367,184</u> | <u>\$ 7,864,369</u> | <u>\$ 377,184</u> |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

The Series of 1995 Bonds are dated November 15, 1995, and pay interest semiannually on May 1 and November 1 of each year until maturity or redemption. The bonds carry interest rates ranging from 4.20% to 5.25%. They will mature on various dates between May 1, 2002 and May 1, 2022. The bonds maturing on and after May 1, 2007, are subject to redemption prior to maturity on May 1, 2006, or any date thereafter.

The Series of 1995 Bonds payable at June 30, 2004, are comprised of serial bonds and term bonds as follows:

| <u>Due Date</u> | <u>Maturities</u> | <u>Interest Rate</u> |
|-------------------------|----------------------|----------------------|
| SERIAL BONDS | | |
| 2005 | \$ 605,000 | 4.75% |
| 2006 | 635,000 | 4.90 |
| 2007 | 665,000 | 5.00 |
| 2008 | 700,000 | 5.10 |
| 2009 | 735,000 | 5.20 |
| TERM BONDS | | |
| 2014 | 4,295,000 | 5.25 |
| 2022 | 9,620,000 | 5.25 |
| TOTAL BONDS OUTSTANDING | <u>17,255,000</u> | |
| Current portion | <u>(605,000)</u> | |
| LONG-TERM PORTION | <u>\$ 16,650,000</u> | |

Aggregate maturities required on long-term debt are as follows:

| <u>Year Ending June 30,</u> | <u>Principal Maturities</u> | <u>Interest Maturities</u> | <u>Total Maturities</u> |
|-----------------------------|-----------------------------|----------------------------|-------------------------|
| 2005 | \$ 605,000 | \$ 897,560 | \$ 1,502,560 |
| 2006 | 635,000 | 868,822 | 1,503,822 |
| 2007 | 665,000 | 837,708 | 1,502,708 |
| 2008 | 700,000 | 804,458 | 1,504,458 |
| 2009 | 735,000 | 768,757 | 1,503,757 |
| 2010 to 2014 | 4,295,000 | 3,607,760 | 7,902,760 |
| 2015 to 2019 | 5,545,000 | 1,970,888 | 7,515,888 |
| 2020 to 2022 | <u>4,075,000</u> | <u>435,225</u> | <u>4,510,225</u> |
| | <u>\$ 17,255,000</u> | <u>\$ 10,191,178</u> | <u>\$ 27,446,178</u> |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Long-term debt activity is summarized as follows:

| | <u>Balance July 1, 2003</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2004</u> |
|---------------|---------------------------------|------------------|-------------------|--------------------------------------|
| Bonds payable | \$ <u>17,835,000</u> | \$ <u>-</u> | \$ <u>580,000</u> | \$ <u>17,255,000</u> |

NOTE H PENSION PLANS - PRIMARY GOVERNMENT

The Township sponsors two single employer, defined benefit pension plans (the Police Pension Plan and the Non-Uniform Pension Plan). The Township also sponsors a non-uniform defined contribution plan.

Plan Descriptions

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

At January 1, 2003, the Township pension plans consisted of the following:

| | <u>Non- Uniform</u> | <u>Police</u> |
|--|-------------------------|---------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits not yet receiving them | 20 | 16 |
| Active employees | <u>25</u> | <u>27</u> |
| TOTAL | <u>45</u> | <u>43</u> |

Non-Uniform Pension Plan

The Non-Uniform Pension Plan provides retirement benefits as well as death and disability benefits. All benefits vest at 100% after 14 years of credited service. Employees who retire at or after age 60 and completion of 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 25% of the social security benefit. Final average salary is the employee's average monthly earnings, 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.

Covered employees are not required to contribute to the Pension Fund. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Fund. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The Township does not issue a stand-alone financial report.

Police Pension Plan

The Police 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 plus a service increment equal to \$100 per month per year of service in excess of 25 years of service. Final average salary is the employee's average salary over the last three years of credited service. An option for early retirement is available for employees after completion of 20 years of service.

Covered employees are not required to contribute to the Pension Fund. The Township is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Pension Fund. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The Township does not issue a stand-alone financial report.

Non-Uniform Pension Plan (Defined Contribution)

The Township of Lower Providence Non-Uniform Pension Plan covers all full-time non-uniform employees under age 65 who have completed six months of service and agree to make contributions, except those employees covered under the police contract and those hired prior to January 1, 2002, and a member of the Non-Uniform Defined Benefit Plan. The plan provisions are adopted and amended by the governing body of the Township. The Township contributes 6% of monthly compensation to the plan. Participants are required to contribute 3% of their monthly compensation to the plan. Benefits vest after five years of service. The plan is administered by ICMA Retirement Corp. Contributions to the plan for 2004 were \$10,060 (Township) and \$15,996 (employees). Total annual covered payroll for 2004 was \$531,165.

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

Pension Plan financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments

Pension Plan equity securities are reported at market value. Fixed income securities are reported at market value, and investment income is recognized as earned. Gains and losses on sales and exchanges of fixed income securities are recognized on the transaction date. Market related value of assets is used to determine the indicated contributions.

Contributions Required and Contributions Made

The Pension Plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method as required by Pennsylvania Act 205. The Pension Plan also uses a method defined by Act 205 to amortize the unfunded liability over a defined period.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Three-Year Trend Information

Non-Uniform Pension Plan

| <u>Year Ended December 31,</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset)</u> |
|------------------------------------|--|--|---|
| 2001 | \$ 146,857 | 99.3% | \$ (23,426) |
| 2002 | 148,020 | 99.3 | (22,457) |
| 2003 | 124,409 | 99.3 | (21,529) |

Police Pension Plan

| <u>Year Ended December 31,</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset)</u> |
|------------------------------------|--|--|---|
| 2001 | \$ 155,887 | 100% | \$ - |
| 2002 | 159,667 | 100 | - |
| 2003 | 170,502 | 100 | - |

The annual required contribution for the current year was determined as part of the January 1, 2003 actuarial valuation using the following assumptions:

| | <u>Non-Uniform</u> | <u>Police</u> |
|--|---------------------|---------------------|
| Date of actuarial valuation | 1/1/2003 | 1/1/2003 |
| Investment rate of return | 8% | 8% |
| Projected salary increases due to inflation | 5% | 5% |
| Cost method | Entry age normal | Entry age normal |
| Amortization method | Level dollar closed | Level dollar closed |
| Amortization period | 19 | 22 |
| Cost of living increases | 3% | 3% |

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE I **RETIREMENT PLAN - COMPONENT UNIT**

Plan Description

General

The Lower Providence Township 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.

Plan Membership

Membership of the plan consisted of the following at December 31, 2003:

| | |
|--|------------------|
| Active plan members | 7 |
| Retirees and beneficiaries currently receiving benefits | 2 |
| Terminated plan members entitled to but not yet receiving benefits | <u>1</u> |
| TOTAL | <u><u>10</u></u> |

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.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Annual Pension Cost

The Authority's annual pension cost of \$27,142 was equal to the Authority's required and actual contributions. Act 205 requires that annual contributions be based on the plan's minimum municipal obligation (MMO). The MMO is based on the plan's biennial actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included as part of the January 1, 1999 valuation were (a) 6.5% investment rate of return (net of expenses) and (b) projected salary increases of 5.20% per year. The actuarial value of plan assets was determined by fair value as of the valuation date.

Five-Year Trend Information

| <u>Year Ended December 31,</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|------------------------------------|---|-----------------------------------|
| 2000 | \$ 36,733 | 100% |
| 2001 | 36,817 | 100 |
| 2002 | 38,267 | 100 |
| 2003 | 25,926 | 100 |
| 2004 | 27,142 | 100 |

NOTE J COMMITMENTS AND CONTINGENCIES

Litigation

The Township of Lower Providence is party to litigation involving various Township matters. Based on the opinion of its legal counsel, the Township officials feel that the outcome of any suits will not have a material effect on the financial condition of the Township.

TOWNSHIP OF LOWER PROVIDENCE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

NOTE K CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Township to credit risk consist principally of cash and receivables. Township deposits with financial institutions in excess of insurance coverage are secured in accordance with Act 72 of the Commonwealth of Pennsylvania.

Receivables are generated throughout Montgomery County, and the Township usually requires no collateral.

NOTE L 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.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER PROVIDENCE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended December 31, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 5,406,300 | \$ 5,406,300 | \$ 5,439,789 | \$ 33,489 |
| Grants | 1,473,488 | 1,473,488 | 722,438 | (751,050) |
| Fines | 90,000 | 90,000 | 85,579 | (4,421) |
| Investment income | 48,400 | 48,400 | 56,292 | 7,892 |
| Permits and fees | 956,575 | 956,575 | 1,316,703 | 360,128 |
| Contributions | - | - | 10,189 | 10,189 |
| Miscellaneous | 243,900 | 243,900 | 180,733 | (63,167) |
| TOTAL REVENUES | 8,218,663 | 8,218,663 | 7,811,723 | (406,940) |
| EXPENDITURES | | | | |
| General government | 1,039,860 | 1,039,860 | 1,002,628 | 37,232 |
| Police, health and public safety | 3,111,760 | 3,111,760 | 2,895,140 | 216,620 |
| Roads and parks | 2,073,350 | 2,073,350 | 1,197,919 | 875,431 |
| Police and employee pension and benefit costs | 1,476,798 | 1,476,798 | 1,474,238 | 2,560 |
| Planning and code enforcement | 421,634 | 421,634 | 393,179 | 28,455 |
| TOTAL EXPENDITURES | 8,123,402 | 8,123,402 | 6,963,104 | 1,160,298 |
| EXCESS OF REVENUES OVER EXPENDITURES | 95,261 | 95,261 | 848,619 | 753,358 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers in | 213,000 | 213,000 | - | (213,000) |
| Interfund transfers out | (678,525) | (678,525) | (580,793) | 97,732 |
| TOTAL OTHER FINANCING SOURCES (USES) | (465,525) | (465,525) | (580,793) | (115,268) |
| NET CHANGE IN FUND BALANCE | (370,264) | (370,264) | 267,826 | 638,090 |
| FUND BALANCE AT BEGINNING OF YEAR | 2,315,414 | 2,315,414 | 2,315,414 | - |
| FUND BALANCE AT END OF YEAR | \$ 1,945,150 | \$ 1,945,150 | \$ 2,583,240 | \$ 638,090 |

See accompanying note to the budgetary comparison schedule.

TOWNSHIP OF LOWER PROVIDENCE
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2004

NOTE A BUDGETS AND BUDGETARY ACCOUNTING

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

1. During November, the Township holds budget hearings for the purpose of receiving oral and written comments from interested parties in regard to the proposed budget for the following year.
2. During November, the Township makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them.
3. Prior to December 31, the Township holds a public hearing to obtain taxpayer comments, after which the budget is legally adopted through passage of an ordinance.
4. All budget revisions require the approval of the Township Board of Supervisors.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on the cash basis of accounting. All appropriations lapse at year end.

The major differences between the budgetary basis of accounting and GAAP are that:

Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual. Expenditures are recorded when paid as opposed to when the liability is incurred, except for interest on general long-term obligations, which is recorded when due.

TOWNSHIP OF LOWER PROVIDENCE

NOTE TO THE BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

Adjustments necessary to convert the results of operations and fund balances at the end of the year from the GAAP basis of accounting to the budgetary basis of accounting are as follows:

| | |
|--|-------------------|
| GENERAL FUND | |
| GAAP basis | \$ 58,957 |
| Accrued revenues at December 31, 2004 | (245,043) |
| Accrued revenues at December 31, 2003 | 347,994 |
| Accrued liabilities at December 31, 2004 | 453,915 |
| Accrued liabilities at December 31, 2003 | <u>(347,997)</u> |
| BUDGETARY BASIS | \$ <u>267,826</u> |

TOWNSHIP OF LOWER PROVIDENCE

PENSION PLAN FUNDING PROGRESS

Year Ended December 31, 2004

DEFINED BENEFIT RETIREMENT PLAN

Schedule of Funding Progress

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's 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 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed is as follows:

Sewer Authority

| Actuarial Valuation Date January 1, | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Annual Covered Payroll (c) | UAAL as a Percentage of Annual Covered Payroll [(b)-(a)/(c)] |
|--|----------------------------------|--|--------------------------------|-------------------------|-------------------------------|---|
| 1997 | \$ 297,163 | \$ 387,071 | \$ 89,908 | 76.77% | \$ 235,587 | 38.16% |
| 1999 | 404,606 | 489,872 | 85,266 | 82.59 | 260,948 | 32.68 |
| 2001 | 625,487 | 596,653 | (28,834) | 104.83 | 288,430 | (10.00) |
| 2003 | 790,220 | 962,374 | 172,154 | 82.11 | 316,121 | 54.46 |

Police Pension Plan (Primary Government)

| Actuarial Valuation Date January 1, | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Annual Covered Payroll (c) | UAAL as a Percentage of Annual Covered Payroll [(b)-(a)/(c)] |
|--|----------------------------------|--|--------------------------------|-------------------------|-------------------------------|---|
| 1995 | \$ 3,545,574 | \$ 3,108,446 | \$ (437,128) | 114.1% | \$ 1,086,284 | (40.2)% |
| 1997 | 4,314,708 | 4,107,390 | (207,318) | 105.0 | 1,249,655 | (16.6) |
| 1998 | 4,659,184 | | | | | |
| 1999 | 5,035,497 | 4,817,115 | (218,382) | 104.5 | 1,341,036 | (16.3) |
| 2000 | 5,278,333 | | | | | |
| 2001 | 5,978,999 | 5,848,499 | (130,500) | 102.2 | 1,407,193 | (9.3) |
| 2002 | 7,183,120 | | | | | |
| 2003 | 6,506,788 | 6,782,100 | 275,312 | 95.9 | 1,527,208 | 18.0 |

TOWNSHIP OF LOWER PROVIDENCE**PENSION PLAN FUNDING PROGRESS***Year Ended December 31, 2004****Non-Uniform Pension Plan (Primary Government)***

| <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>Funded Ratio (a)/(b)</u> | <u>Annual Covered Payroll (c)</u> | <u>UAAL as a Percentage of Annual Covered Payroll [(b)-(a)/(c)]</u> |
|--|--|--|--|-------------------------------------|---|---|
| 1995 | \$ 481,306 | \$ 599,411 | \$ 118,105 | 80.3% | \$ 726,902 | 16.2% |
| 1997 | 693,477 | 758,055 | 64,578 | 91.5 | 838,003 | 7.7 |
| 1999 | 896,419 | 1,216,989 | 320,570 | 73.7 | 843,829 | 38.0 |
| 2000 | 985,257 | | | | | |
| 2001 | 1,118,486 | 1,375,310 | 256,824 | 81.3 | 1,050,120 | 24.5 |
| 2002 | 1,324,365 | | | | | |
| 2003 | 1,289,624 | 1,590,732 | 301,108 | 81.1 | 826,386 | 36.4 |

SUPPLEMENTARY INFORMATION SECTION

| <u>Tree Fund</u> | <u>Self-Insurance Fund</u> | <u>Debt Service Fund</u> | <u>Capital Project Funds</u> | | <u>Total Other Governmental Funds</u> |
|------------------|----------------------------|--------------------------|------------------------------|----------------------------------|---------------------------------------|
| | | | <u>Public Works Fund</u> | <u>Parks and Recreation Fund</u> | |
| \$ 76,315 | \$ 228,082 | \$ 207 | \$ 78,364 | \$ 153,804 | \$ 965,169 |
| - | - | - | - | - | 181 |
| - | - | 3,836 | - | - | 17,636 |
| - | - | - | 97,283 | - | 97,283 |
| <u>\$ 76,315</u> | <u>\$ 228,082</u> | <u>\$ 4,043</u> | <u>\$ 175,647</u> | <u>\$ 153,804</u> | <u>\$ 1,080,269</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,750 |
| - | - | - | - | 19,048 | 80,345 |
| - | - | - | - | 19,048 | 87,095 |
| 76,315 | 228,082 | - | - | - | 678,728 |
| - | - | 4,043 | - | - | 4,043 |
| - | - | - | 175,647 | 134,756 | 310,403 |
| <u>76,315</u> | <u>228,082</u> | <u>4,043</u> | <u>175,647</u> | <u>134,756</u> | <u>993,174</u> |
| <u>\$ 76,315</u> | <u>\$ 228,082</u> | <u>\$ 4,043</u> | <u>\$ 175,647</u> | <u>\$ 153,804</u> | <u>\$ 1,080,269</u> |

| <u>Tree Fund</u> | <u>Self-Insurance Fund</u> | <u>Debt Service Fund</u> | <u>Capital Project Funds</u> | | <u>Total Other Governmental Funds</u> |
|------------------|----------------------------|--------------------------|------------------------------|----------------------------------|---------------------------------------|
| | | | <u>Public Works Fund</u> | <u>Parks and Recreation Fund</u> | |
| \$ - | \$ - | \$ 192,635 | \$ - | \$ - | \$ 886,222 |
| - | - | - | - | - | 391,066 |
| 1,123 | 3,082 | 165 | 2,179 | 22,005 | 35,452 |
| - | - | - | - | 207,163 | 456,967 |
| 13,350 | - | - | 239,066 | 1,200 | 275,579 |
| - | - | 117,832 | - | - | 119,667 |
| <u>14,473</u> | <u>3,082</u> | <u>310,632</u> | <u>241,245</u> | <u>230,368</u> | <u>2,164,953</u> |
| - | - | 2,835 | - | - | 2,835 |
| - | - | - | - | - | 284 |
| - | - | - | 180,911 | 166,635 | 1,504,355 |
| - | - | - | - | - | 2,521 |
| - | - | 375,308 | - | - | 375,308 |
| - | - | 367,184 | - | - | 367,184 |
| - | - | <u>745,327</u> | <u>180,911</u> | <u>166,635</u> | <u>2,252,487</u> |
| 14,473 | 3,082 | (434,695) | 60,334 | 63,733 | (87,534) |
| - | 225,000 | 355,793 | - | - | 580,793 |
| 14,473 | 228,082 | (78,902) | 60,334 | 63,733 | 493,259 |
| <u>61,842</u> | <u>-</u> | <u>82,945</u> | <u>115,313</u> | <u>71,023</u> | <u>499,915</u> |
| <u>\$ 76,315</u> | <u>\$ 228,082</u> | <u>\$ 4,043</u> | <u>\$ 175,647</u> | <u>\$ 134,756</u> | <u>\$ 993,174</u> |

