

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)

FINANCIAL STATEMENTS

Year Ended December 31, 2002



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

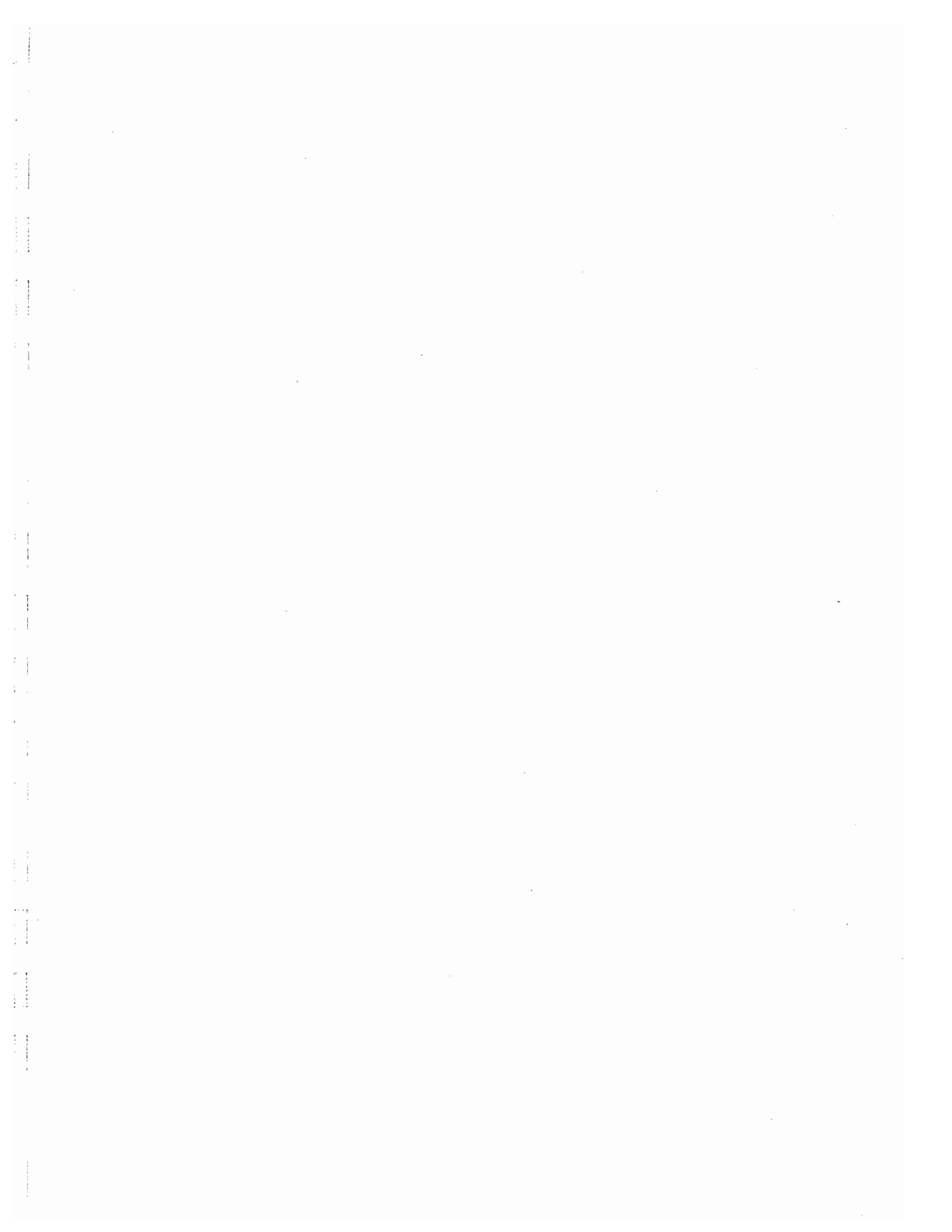


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Independent Auditors' Report

To the Board of Directors
Lower Providence Township Municipal Authority
Audubon, Pennsylvania

We have audited the accompanying balance sheet of the Lower Providence Township Municipal Authority (a component unit of Lower Providence Township) as of December 31, 2002, and the related statements of revenues, expenses and changes in accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lower Providence Township Municipal Authority as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Maillie, Falconiero + Company, LLP

March 19, 2003

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)

BALANCE SHEET
December 31, 2002

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$ 110,522

PROPERTY, PLANT AND EQUIPMENT, net of
accumulated depreciation 3,922,572

DEBT ISSUANCE COST, net of amortization 195,014

TOTAL ASSETS \$ 4,228,108

LIABILITIES AND FUND DEFICIT

CURRENT LIABILITIES

Demand notes payable, Lower Providence Township \$ 3,045,056

Current portion of long-term debt 175,000

Current portion of capital lease obligation 11,946

Accrued interest payable on demand notes 290,433

TOTAL CURRENT LIABILITIES 3,522,435

LONG-TERM DEBT, less current portion 6,382,531

DEFERRED AMOUNT ON REFUNDED 1994 SERIES
DEBT, net of amortization (384,773)

ACCRUED INTEREST PAYABLE, less current portion 139,587

TOTAL LIABILITIES 9,659,780

FUND DEFICIT

Contributed capital

Capital grants

Montgomery County Open Space Acquisition Grant 1,184,644

Commonwealth of Pennsylvania Legislative Initiative

Program Grant 20,000

Accumulated deficit (6,636,316)

TOTAL FUND DEFICIT (5,431,672)

TOTAL LIABILITIES AND FUND DEFICIT \$ 4,228,108

See accompanying notes.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
ACCUMULATED DEFICIT
Year Ended December 31, 2002

OPERATING REVENUES	\$ 23,836
OPERATING EXPENSES	<u>72,325</u>
LOSS FROM OPERATIONS	(48,489)
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(395,740)
Amortization of debt issuance costs	(16,601)
Amortization of deferred amount on refunded 1994 series debt	(27,763)
Discharge of indebtedness	107,181
Transfer of funds from Lower Providence Township	<u>88,784</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(244,139)</u>
NET LOSS	(292,628)
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	<u>(6,343,688)</u>
ACCUMULATED DEFICIT AT END OF YEAR	<u>\$ (6,636,316)</u>

See accompanying notes.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)

STATEMENT OF CASH FLOWS

Year Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Loss from operations	\$ (48,489)
Adjustments to reconcile loss from operations to net cash provided by operating activities	
Depreciation	72,911
Decrease in inventory	4,305
Decrease in	
Accounts payable, trade	(9,014)
Deferred revenues	(2,460)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>17,253</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds of demand note, Lower Providence Township	25,000
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on capital lease obligations	(22,142)
Interest paid on capital lease obligations	(1,558)
Transfer from Lower Providence Township	<u>88,784</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>65,084</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	107,337
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

3,185

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 110,522

SUPPLEMENTAL DISCLOSURES

NONCASH INVESTING, FINANCING AND CAPITAL ACTIVITIES

On December 5, 2002, a promissory note due on demand was executed for \$160,000 of principal and \$279,586 of interest on long-term debt.

On February 26, 2002, a promissory note due on demand was executed for \$25,000 for payment of operating expenses.

See accompanying notes.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

On May 4, 1964, an ordinance enacted by the Supervisors of Lower Providence Township created the Lower Providence Township Industrial Development Authority. By Articles of Amendment approved May 18, 1994, the Articles of Incorporation of the Authority were amended to change the name of the Authority to the Lower Providence Township Municipal Authority and to provide that the term of existence of the Authority shall be 50 years from the date of such approval. Authority operations commenced on July 18, 1994, when it purchased the General Washington recreation facility. The Lower Providence Township Municipal Authority is part of Lower Providence Township's reporting entity under the criteria promulgated in GASB Statement No. 14, *The Financial Reporting Entity*. The Township appoints the Authority board members. The Township is legally entitled to all 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 Authority may not sell, donate, or otherwise dispose of its real estate and/or facilities without the written approval of the Township. Also, substantially all of the Authority's debt is payable to the Township. These are the separate component unit financial statements of the Lower Providence Township Municipal Authority.

Lower Providence General Washington Operations

The Authority is an "Operating Authority," the purpose of which is to acquire, improve, maintain and operate the General Washington real estate and recreation facilities. The facilities were purchased pursuant to the Montgomery County Open Space Acquisition Grant, which required the deed to be recorded in separate parcels. Parcel A is the 97.20+ acres containing the golf course property and its pertinent facilities. The deed to the property states that Parcel A shall be maintained as open space and gives Montgomery County the right to written consent to any transfer of ownership, sale, or change in the use of this parcel. Parcel B is the General Washington Recreation Center and 9.5 acres of land surrounding the facility. Sales include all revenues from golf fees, rentals and merchandise sales. Effective February 2002, the operations were assumed by the Township and, accordingly, substantially all operating activities are reflected on the Township's books. Operating activities reflected on the Authority books for 2002 were primarily capital lease obligations paid by the Township and depreciation on capital leases and other fixed assets. The reporting of operations and management reverts back to the Authority for 2003. All remaining funds in the Township's golf operations account as of December 31, 2002 (amounting to \$88,784) have been transferred to the Authority to be used for operations.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

Basis of Presentation and Accounting

The financial statements 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 No. 20, the Authority, in preparing its financial statements, has 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

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.

Property, Plant and Equipment

The Authority records the cost of the property, plant and equipment of the facilities on its own balance sheet at cost less any loss recognized on impairment/abandonment of fixed assets.

Depreciation of the Authority property and equipment is calculated using the estimated useful life of the asset as follows:

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

Maintenance, repairs and minor replacements are expensed in the year incurred.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2002

Amortization of Debt Issuance Costs

The debt issuance costs are amortized over the life of the debt. Amortization is computed in proportion to the stated interest requirements on the debt. The accumulated amortization was \$88,674 as of December 31, 2002.

NOTE B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2002, are as follows:

Land	\$ 3,185,540
Land improvements	530,578
Building and improvements	320,707
Furniture, fixtures and equipment	<u>346,477</u>
	4,383,302
Accumulated depreciation	<u>(460,730)</u>
	<u>\$ 3,922,572</u>

NOTE C MONTGOMERY COUNTY OPEN SPACE ACQUISITION GRANT

During 1994, the Authority received a capital contribution in the amount of \$1,184,644 from Lower Providence Township as a subrecipient of the Montgomery County Open Space Acquisition Grant awarded to the Township. The General Washington Recreation Center 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.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE D INTERMUNICIPAL AGREEMENT

Related-Party Transaction

On July 18, 1994, an Intermunicipal Agreement was signed between Lower Providence Township and the Lower Providence Township Municipal Authority, whereby the Township agreed to sell bonds in the amount of \$5,235,000 and apply for and obtain a Montgomery County Open Space Grant in the amount of \$1,184,644 for the purpose of providing the capital to the Authority to finance the acquisition and improvements of the General Washington property in its entirety and to provide funds for initial operating capital and improvements. The Authority, in its consideration, agreed to acquire, improve, maintain and operate the General Washington real estate and recreation facilities in a manner to ensure that the facility is financially self-sufficient. The Authority agreed to repay the Township the \$5,235,000 plus interest as set forth in the debt service payment schedule in the notes to the financial statements. The Authority agreed to abide by the conditions and provisions of Resolution 94-1A of the Montgomery County Open Space Board. The Authority agreed that all 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, shall be paid over to the Township within 60 days of the close of the Authority's fiscal year.

NOTE E CAPITAL LEASES

The capital lease consists of the Pro Shop building commitment under an 84-month noncancelable lease dated March 20, 1996, payable \$1,746 per month with seven payments remaining.

Minimum lease payments for the capital lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2003	\$ <u>12,223</u>
Total minimum lease payments	\$ 12,223
Interest	<u>(277)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ <u>11,946</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

December 31, 2002

The following is an analysis of the leased property under capital leases, by major classes, as of December 31, 2002:

Building and improvements	\$	119,354
Accumulated depreciation		<u>(25,363)</u>
	\$	<u>93,991</u>

NOTE F DEMAND NOTES PAYABLE, RELATED PARTY

On June 1, 1998, the Authority signed a \$414,325 note payable due upon demand with Lower Providence Township. During 1999, the Authority signed \$681,970 of additional notes payable due upon demand with Lower Providence Township. During 2000, the Authority signed \$705,512 of additional notes payable due upon demand with Lower Providence Township. During 2001, the Authority signed \$466,663 of additional notes payable due upon demand with Lower Providence Township. During 2002, the Authority signed notes for an additional \$439,586 and \$42,000 (operating advances). An interest rate of 3.65% per annum is payable at maturity on these notes. Any prepayment will be applied against principal and will not postpone the due date of the outstanding balance unless the note holder shall otherwise agree in writing. Interest expense on all of the above demand notes was \$84,136 for the year ended December 31, 2002.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE G LONG-TERM DEBT

On July 18, 1994, the Authority entered into the Intermunicipal Agreement between Lower Providence Township and the Authority, which requires the Authority to make semiannual payments of principal and interest on May 1 and November 1 of each year. The Intermunicipal Agreement is collateralized primarily by the General Washington facilities and revenues derived from them. The following is a summary of changes in this long-term debt for the year ended December 31, 2002:

Amount of original issue	\$5,235,000
Range of final maturity date	1998-2024
Range of interest rates %.....	3.60%-6.00%
Balance December 31, 2001	\$ 320,000
Retired 2002	<u>(100,000)</u>
Balance, December 31, 2002	<u>\$ 220,000</u>

Effective November 16, 1998, the Authority and Lower Providence Township amended the Intermunicipal Agreement to provide for the refunding of \$4,315,000 of Authority debt (as indicated above) issued pursuant to the original agreement and to provide for the issuance of \$4,815,000 of new Authority debt pursuant to the amendment to the Intermunicipal Agreement, as follows:

On November 16, 1998, the Authority issued \$4,815,000 debt payable to Lower Providence Township to refund \$4,315,000 of outstanding 1994 Series debt payable to Lower Providence Township. The net proceeds of \$4,640,197 (after reimbursing the Township for payment of \$174,803 underwriting fees, insurance, original issue discount and other issuance costs) were paid to the Township. As a result, \$4,315,000 of outstanding 1994 Series debt payable to the Township was defeased, and the liability for that debt has been removed from the Authority's balance sheet.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

December 31, 2002

Contemporaneously, on November 16, 1998, Lower Providence Township issued \$4,815,000 in General Obligation Bonds to advance refund \$4,315,000 of outstanding 1994 Series bonds. The net proceeds of \$4,640,197 (after payment of \$174,803 underwriting fees, insurance, original issue discount and other issuance costs) were used by the Township to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 Series bonds. As a result, \$4,315,000 of outstanding General Obligation Bonds of the Township, 1994 Series, is considered to be defeased, and the liability for that debt has been removed from the Township's balance sheet. Contemporaneously, \$4,315,000 of 1994 Series Authority debt receivable by the Township has been removed from the Township's balance sheet.

The refunding by the Authority resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$500,183. This difference, reported in the accompanying financial statements as a deduction from debt payable to Lower Providence Township, Series of 1998, is being charged to operations through the year 2024 by amortization of the deferred amount computed in proportion to the stated interest requirements on the new debt through that date. The Authority completed the refunding to reduce its total debt service payments over the next 26 years by \$565,342 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$341,335.

The November 16, 1998 amendment to the Intermunicipal Agreement requires the Authority to make semiannual payments of principal and interest on May 1 and November 1 of each year with respect to the 1998 Series debt. The 1998 Series debt is collateralized by the General Washington facilities. The following is a summary of changes in this long-term debt for the year ended December 31, 2002:

Amount of original issue	\$4,815,000
Range of final maturity dates.....	1999-2024
Range of interest rates %.....	3.40%-4.55%
Balance December 31, 2001	\$ 4,750,000
Retired 2002	<u>(30,000)</u>
Balance, December 31, 2002	<u>\$ 4,720,000</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Lower Providence Township)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

On November 15, 1995, the Authority entered into a note payable with Lower Providence Township to finance future capital improvements. The note requires the Authority to make semiannual payments of principal and interest on April 1 and October 1 of each year. The note is collateralized primarily by the General Washington facilities. The following is a summary of changes in this long-term debt for the year ended December 31, 2002:

Amount of original issue	\$1,290,000
Range of final maturity dates.....	1998-2022
Range of interest rates %.....	3.65%-5.57%
Balance December 31, 2001	\$ 1,150,000
Retired 2002	<u>(30,000)</u>
Balance, December 31, 2002	\$ <u>1,120,000</u>

The Authority signed several promissory notes payable to Lower Providence Township as follows:

<u>Date of Note</u>	<u>Amount</u>	<u>Date of Maturity</u>
January 9, 1996	\$ 40,000	January 9, 2003
May 29, 1996	100,000	May 29, 2003
November 26, 1996	80,000	November 26, 2003
December 20, 1996	75,000	December 20, 2003
June 1, 1997	147,033	June 1, 2004
November 1, 1997	32,041	November 1, 2004
December 1, 1997	227,032	December 1, 2004
December 1, 2001	<u>91,425</u>	December 1, 2008
	\$ <u>792,531</u>	

No payments are due until maturity. An interest rate of 3.65% per annum is payable at maturity. Any prepayment will be applied against principal and will not postpone the due date of the outstanding balance.

Interest expense on all of the above debt was \$392,624 for the year ended December 31, 2002.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY

(A Component Unit of Lower Providence Township)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

The following is a schedule of principal maturities and interest requirements on all of the above debt for each of the next five years and to maturity:

<u>Year Ending</u> <u>December 31,</u>		
2003		\$ 817,354
2004		963,391
2005		444,368
2006		451,545
2007		443,282
2008-2027		<u>7,483,032</u>
	TOTAL	10,602,972
Interest		<u>(3,750,441)</u>
	OUTSTANDING PRINCIPAL	<u>\$ 6,852,531</u>

NOTE H DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The Authority's deposits with financial institutions and investments, which are carried at cost at December 31, 2002, consist of the following:

	<u>Carrying</u> <u>Amount</u>	<u>Bank</u> <u>Balances/</u> <u>Cost</u>
Commerce Bank	\$ <u>110,522</u>	\$ <u>110,522</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY

(A Component Unit of Lower Providence Township)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

The following is a schedule of the Authority's deposits with financial institutions (at bank balances) at December 31, 2002, categorized by risk:

	<u>Category</u>			<u>Bank</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Values</u>
Cash in bank, Commerce Bank	\$ <u>100,000</u>	\$ <u>-</u>	\$ <u>10,522</u>	\$ <u>110,522</u>	\$ <u>110,522</u>

Category of Risk Level

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

