

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

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2004



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

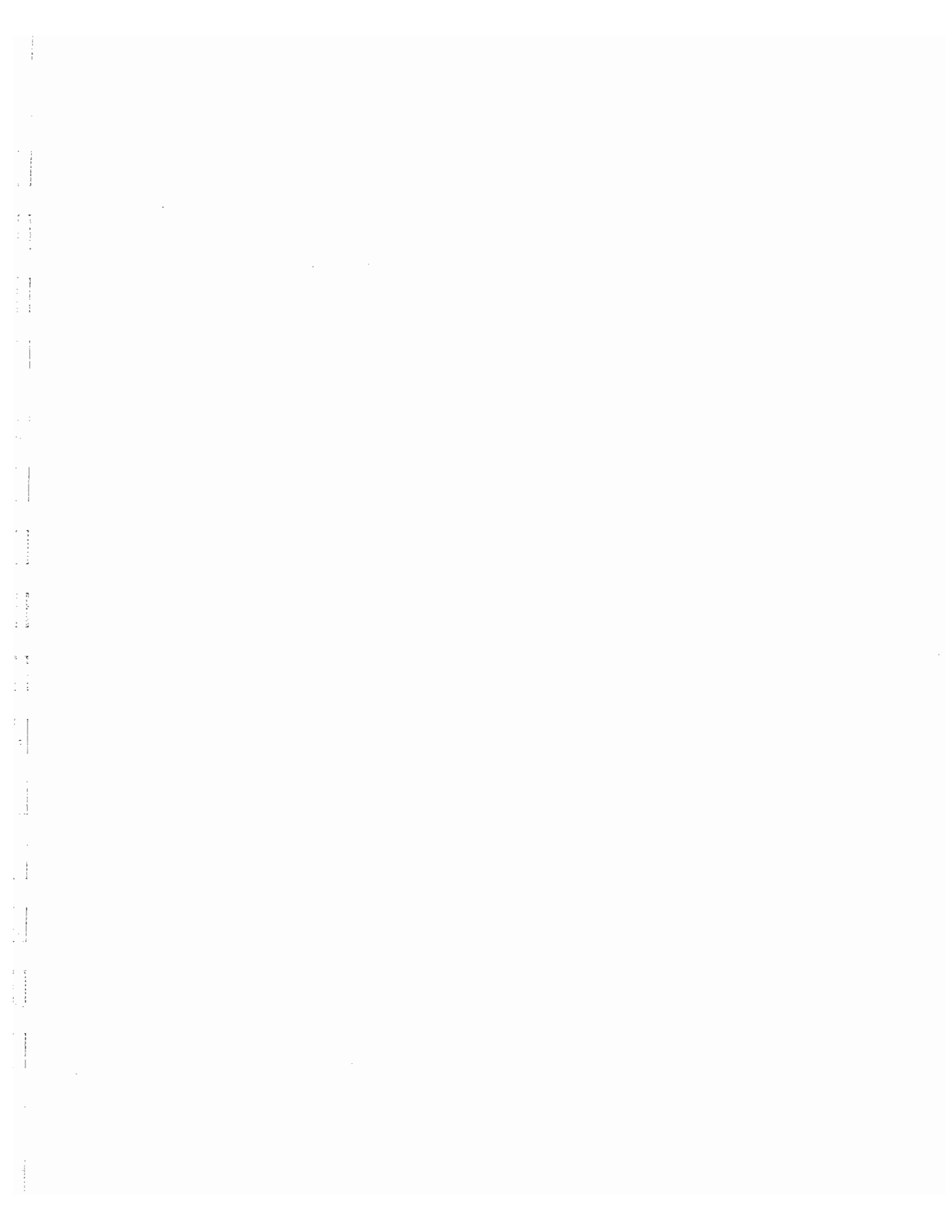


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Independent Auditors' Report

To the Board of Members
Lower Providence Township Municipal Authority
Eagleville, Pennsylvania

We have audited the accompanying basic financial statements of the Lower Providence Township Municipal Authority (a component unit of the Township of Lower Providence) as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Lower Providence Township Municipal 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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.

To the Board of Members
Lower Providence Township Municipal Authority
Eagleville, Pennsylvania

The management's discussion and analysis on pages 4 and 5 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We 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.

Maillie, Falconiero + Company

January 31, 2005

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2004

Our discussion and analysis of the Lower Providence Township Municipal Authority's (a component unit of the Township of Lower Providence) financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Authority's financial statements, which begin with the balance sheet.

FINANCIAL HIGHLIGHTS

- The liabilities of the Authority exceeded its assets by \$7,180,407 (net deficit).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Authority. The components of the report include the independent auditors' report, management's discussion and analysis, financial statements and notes 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 Authority's financial position.

Management's discussion and analysis (MD&A), prepared by Authority/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 balance sheet, statement of revenues, expenses and changes in net deficit, statement of cash flows and the notes to the basic financial statements.

- The *balance sheet* shows the financial condition of the Authority at the end of the fiscal period, or a specific snapshot in time.
- The *statement of revenues, expenses and changes in net deficit* measures the results of operations of the Authority during the fiscal period.
- The *statement of cash flows* measures the resources provided during the fiscal period and the uses to which they are put.
- 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 Authority's financial condition.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2004

REPORTING

The Lower Providence Township Municipal Authority was established in 1964 to acquire, maintain and operate the General Washington recreational facility. A five-member board, appointed by the Township's Board of Supervisors, governs the Authority. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it. The Authority owns the General Washington recreational facility.

Cash represents 1% of the Authority's total assets. By far the largest portion of the Authority's assets, 86%, reflects its investment in capital assets (e.g., property and equipment).

At December 31, 2004, the Authority had \$10,752,600 in outstanding debt compared to \$10,024,941 last year. The debt matures in 2024.

REQUESTS FOR INFORMATION

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

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

BALANCE SHEET

December 31, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 49,471
Accounts receivable	<u>39,911</u>

TOTAL CURRENT ASSETS	<u>89,382</u>
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NONCURRENT ASSETS

Property and equipment, net of accumulated depreciation of \$816,405	3,561,017
Deferred charges, net of accumulated amortization of \$293,498	<u>490,373</u>

TOTAL NONCURRENT ASSETS	<u>4,051,390</u>
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TOTAL ASSETS	<u>\$ 4,140,772</u>
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LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES

Current portion of bonded debt	\$ 190,000
Accounts payable	3,275
Accrued interest	<u>565,304</u>

TOTAL CURRENT LIABILITIES	758,579
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BONDS AND NOTE PAYABLE, less current portion	<u>10,562,600</u>
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TOTAL LIABILITIES	<u>11,321,179</u>
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NET DEFICIT

Invested in capital assets, net of related debt	(2,133,983)
Unreserved	<u>(5,046,424)</u>

TOTAL NET DEFICIT	<u>(7,180,407)</u>
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TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 4,140,772</u>
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See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET DEFICIT
Year Ended December 31, 2004

OPERATING REVENUES	
Admissions	\$ 45,843
Dues and memberships	14,538
Rental fees	73,003
Pro shop sales	15,910
Miscellaneous	<u>24,120</u>
TOTAL OPERATING REVENUES	<u>173,414</u>
OPERATING EXPENSES	
Operating expenses	429,634
General and administrative	70,532
Amortization	46,448
Depreciation	<u>60,680</u>
TOTAL OPERATING EXPENSES	<u>607,294</u>
OPERATING LOSS	<u>(433,880)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	863
Interest expense	<u>(443,135)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(442,272)</u>
CHANGE IN NET ASSETS	(876,152)
NET DEFICIT AT BEGINNING OF YEAR	<u>(6,304,255)</u>
NET DEFICIT AT END OF YEAR	<u>\$ (7,180,407)</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 171,064
Cash payments to suppliers for services	(103,964)
Cash payments to employees	(72,617)
NET CASH USED BY OPERATING ACTIVITIES	<u>(5,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>863</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,654)
CASH AT BEGINNING OF YEAR	<u>54,125</u>
CASH AT END OF YEAR	<u>\$ 49,471</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (433,880)
Adjustments to reconcile operating loss to net cash used by operating activities	
Amortization	46,448
Depreciation	60,680
Changes in assets and liabilities	
Accounts receivable	(39,911)
Deposit payable	(2,350)
Accounts payable	3,122
Notes payable	<u>360,374</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (5,517)</u>

See accompanying notes to the basic financial statements.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE A **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

On May 4, 1964, an ordinance enacted by the Supervisors of the Township of Lower Providence (the "Township") 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 Township Municipal Authority (the "Authority") and to provide that the term of existence of the Authority shall be 50 years from the date of such approval.

The Authority is an "Operating Authority," the purpose of which is to acquire, improve, maintain and operate the General Washington recreational facility.

The Authority is part of the Township's reporting entity under the criteria promulgated in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Township appoints Authority board members. The Township is legally entitled to all revenues collected not otherwise required for the purposes of paying current debt service, operating expenses, extraordinary maintenance costs, or providing for current capital improvements. The Authority may not sell, donate, or otherwise dispose of its real estate and/or facilities without the written approval of the Township. These financial statements solely reflect the activity of the Authority and do not include the results of operations of the Township.

Basis of Accounting

The Authority is accounted for on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. The Authority has elected to apply only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Cash and Cash Equivalents

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.

Fixed Assets

Fixed assets are recorded in the books and records at cost. A provision for depreciation has been calculated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	20-40
Buildings and improvements	10-40
Machinery and equipment	3-20

Expenditures for maintenance, repairs and minor replacements are expensed as incurred.

Unamortized Bond Issuance Costs

Bond issuance costs incurred with the issuance of the 1994, 1995 and 1998 Bonds are being amortized over the term of the bonds.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

Budgets and Budgetary Accounting

The Authority follows these procedures in establishing budgetary data:

1. During the fall, a preliminary budget is presented to the Board.
2. In December, the final budget is adopted.
3. All budget revisions require the approval of the Authority.
4. Budgetary control is maintained at the account level.
5. The budget is adopted on the accrual basis of accounting. All appropriations lapse at year end.

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.

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*.

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 December 31, 2004

NOTE B CASH AND INVESTMENTS

Cash

The Authority's bank deposits at year end were covered by federal depository insurance or by collateral held by the Authority's custodial bank in the bank's name.

The Authority's investments are categorized below to give an indication of the level of such risk assumed by the Authority at year end. *Category 1* includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. *Category 2* includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. *Category 3* includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name.

NOTE C FIXED ASSETS

A summary of fixed assets is as follows:

	January 1, 2004 Balance
CAPITAL ASSETS NOT BEING DEPRECIATED	
Land	\$ <u>3,185,540</u>
CAPITAL ASSETS BEING DEPRECIATED	
Land improvements	952,300
Building	54,100
Machinery and equipment	<u>185,482</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>1,191,882</u>
Accumulated depreciation	
Land improvements	666,610
Building	49,900
Machinery and equipment	<u>39,215</u>
TOTAL ACCUMULATED DEPRECIATION	<u>755,725</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>436,157</u>
TOTAL CAPITAL ASSETS, net	<u>\$ 3,621,697</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of the Township of Lower Providence)
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004

NOTE D LONG-TERM DEBT

An Inter-Municipal Agreement between the Township and the Authority whereby the Township agreed to sell the proceeds to the Authority. The funds were used for the construction of buildings of the recreational facility. The original bond issue with the Township was defeased. The refunding results in being amortized over the life of the 1995 bonds.

In 1995, the Authority entered into a loan for capital improvements.

The Authority entered into various promissory notes for operating expenditures and refund expenditures. The interest rate of 3.65% per annum is payable at maturity.

<u>Year</u>	<u>Original Issue/Loan</u>	<u>In</u>
<u>Bonds</u>		
1994	\$ 5,235,000	
1998	4,815,000	
	TOTAL BONDS	
<u>Note Payable</u>		
1995	\$ 1,290,000	
<u>Promissory Notes</u>		
1995	\$ 7,000	
1997	416,106	
1998	439,325	
1999	700,459	
2000	687,023	
2001	558,088	
2002	464,586	
2003	867,354	
2004	1,323,765	
	TOTAL DEMAND NOTES	
	TOTAL	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004

Principal and interest requirements to amortize the bonds and note payable for the next five years and thereafter are as follows. The promissory notes are due on the date of maturity as listed above.

Bonds and note payable (not including promissory notes):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 190,000	\$ 254,368	\$ 444,368
2006	205,000	246,545	451,545
2007	205,000	238,282	443,282
2008	215,000	229,827	444,827
2009	225,000	220,637	445,637
2010 to 2014	1,260,000	950,421	2,210,421
2015 to 2019	1,585,000	635,877	2,220,877
2020 to 2024	<u>1,810,000</u>	<u>238,484</u>	<u>2,048,484</u>
	<u>\$ 5,695,000</u>	<u>\$ 3,014,441</u>	<u>\$ 8,709,441</u>

