
FINANCIAL STATEMENTS

FAIRVIEW TOWNSHIP AUTHORITY
A COMPONENT UNIT OF FAIRVIEW TOWNSHIP
NEW CUMBERLAND, PENNSYLVANIA
FOR THE YEAR ENDED DECEMBER 31, 2003

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INDEPENDENT AUDITOR'S REPORT

Members of the Authority
Fairview Township Authority
New Cumberland, Pennsylvania

We have audited the component unit statement of assets, liabilities and fund balances arising from cash transactions of the Fairview Township Authority as of December 31, 2003 and the related statement of cash receipts and disbursements 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.

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

In our opinion, the above mentioned component unit financial statements present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the Fairview Township Authority at December 31, 2003, and the results of its cash transactions for the year then ended, on the basis of accounting described in Note 1.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Fairview Township Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Chubb and Associates
CHUBB AND ASSOCIATES
Certified Public Accountants

January 30, 2004

FAIRVIEW TOWNSHIP AUTHORITY
A COMPONENT UNIT OF FAIRVIEW TOWNSHIP
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS
DECEMBER 31, 2003

	<u>ADMINISTRATIVE FUND</u>	<u>SERIES OF 2001 ALL FUNDS</u>	<u>TOTALS (MEMORANDUM) (ONLY)</u>
ASSETS			
Cash	16,140		16,140
Restricted Cash and Cash Equivalents		113	113
Restricted Investments		1,386,537	1,386,537
Future Lease Rental Receivable	<u> </u>	<u>13,850,000</u>	<u>13,850,000</u>
TOTAL ASSETS	<u><u>16,140</u></u>	<u><u>15,236,650</u></u>	<u><u>15,252,790</u></u>
 LIABILITIES			
Bonds Payable	<u> </u>	<u>13,850,000</u>	<u>13,850,000</u>
TOTAL LIABILITIES	<u> </u>	<u><u>13,850,000</u></u>	<u><u>13,850,000</u></u>
 CONTINGENCIES AND COMMITMENTS			
 FUND BALANCES	 <u>16,140</u>	 <u>1,386,650</u>	 <u>1,402,790</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>16,140</u></u>	<u><u>15,236,650</u></u>	<u><u>15,252,790</u></u>

See Notes to Financial Statements.

FAIRVIEW TOWNSHIP AUTHORITY
A COMPONENT UNIT OF FAIRVIEW TOWNSHIP
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>ADMINISTRATIVE FUND</u>	<u>SERIES OF 2001 ALL FUNDS</u>	<u>TOTALS (MEMORANDUM) (ONLY)</u>
CASH RECEIPTS			
Investment Income		94,597	94,597
Lease Rentals		1,205,948	1,205,948
Developer Contributions	51,409		51,409
Transfer From Township	9,350		9,350
Unrealized Gain (Loss) on Investments	<u> </u>	<u>(59,428)</u>	<u>(59,428)</u>
TOTAL CASH RECEIPTS	<u>60,759</u>	<u>1,241,117</u>	<u>1,301,876</u>
CASH DISBURSEMENTS			
Bond Principal		550,000	550,000
Bond Interest		655,948	655,948
Developer Refunds	40,059		40,059
Administrative Fees			
Engineering	285		285
Legal and Accounting	6,554		6,554
Financial Services Fees	2,500	22,940	25,440
Transfer to Township	<u> </u>	<u>72,089</u>	<u>72,089</u>
TOTAL CASH DISBURSEMENTS	<u>49,398</u>	<u>1,300,977</u>	<u>1,350,375</u>
EXCESS (DEFICIT) CASH RECEIPTS OVER DISBURSEMENTS	11,361	(59,860)	(48,499)
FUND BALANCE, JANUARY 1, 2003	<u>4,779</u>	<u>1,446,510</u>	<u>1,451,289</u>
FUND BALANCE, DECEMBER 31, 2003	<u>16,140</u>	<u>1,386,650</u>	<u>1,402,790</u>

See Notes to Financial Statements.

FAIRVIEW TOWNSHIP AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - The Fairview Township Authority was created in 1963 and was organized under the laws governing authorities within the Commonwealth of Pennsylvania (Municipality Authorities Act of 1945). The Authority has the power to construct, finance, operate, maintain and lease sewer systems. The Authority owns the sewer system and leases it to Fairview Township.

The governing body of the Authority is a Board consisting of five members appointed by the Fairview Township Board of Supervisors. The terms of the members of the Board are five years each. The terms are staggered so that the term of one member expires each year. Members of the Boards may be reappointed. The Board is authorized to exercise any and all powers conferred by the Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of sewer systems.

The Authority is a component unit of Fairview Township. The Township includes the Authority as a component unit of its reporting entity determined by the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". The Township is financially accountable, as defined by GASB No. 14, for the fiscal matters of the Authority. The Authority is not fiscally independent, and, as such, the Authority is a component unit of Fairview Township.

BASIS OF PRESENTATION - The Authority's policy is to prepare its component unit financial statements on the cash basis; consequently, certain revenue is recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. Interfund receivables and payables are recorded when incurred. The Authority does not accumulate the cost of fixed assets for any fund. The Authority does recognize the changes in fair value of investments in accordance with GASB No. 31, which is a modification of the cash basis.

In accordance with the financial provisions of the trust indentures securing the sewer revenue bonds, the trust assets of the Authority are accounted for in various funds established by the indentures. The purpose of the funds is to segregate the trust assets into restricted-use accounts for the security of the bondholders. The funds are maintained by an independent trustee on the cash basis, as required by the indenture. The accounting records maintained by the trustee do not differ significantly from the accounting records which would be maintained if the modified accrual basis of accounting had been utilized, as required by U.S. generally accepted accounting principles for Debt Service Funds of Local Governmental Units.

Because the Authority merely acts as a conduit for the receipt of rent and the payment of the interest and principal of the bonds and the related executory expenses and may, upon provision for the retirement of its debt, convey title to the facilities to the Township the "direct financing method" of accounting for long-term capital leases is utilized on the Authority's balance sheet. Under this method, the present value of the net minimum lease payments applicable to the debt service requirements of the sewer revenue bonds is shown as a receivable and the cost of the facilities financed by the Authority is considered to be an asset of the Township.

FAIRVIEW TOWNSHIP AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

Lease rentals are recorded as income when received and distributed by the trustee to separate funds for present and future redemption of bonds and for payment of interest as directed by the terms of the trust indentures.

INVESTMENTS - Investments are stated at fair value measured by quoted prices in an active market. The change in fair value of the investments is reflected as unrealized gains and losses on the statement of cash receipts and disbursements.

TOTALS - MEMORANDUM ONLY - Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Interfund eliminations have not been made in the aggregation of this data.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments held by the trustee are restricted in accordance with the provisions of the Trust Indentures. The cash in the Authority Administrative Fund, which is controlled by the Authority Treasurer and Administrative Secretary, is unrestricted and totals \$16,140 at December 31, 2003. It is insured up to \$100,000 by FDIC.

Cash equivalents and investments are purchased by the Trustee as part of the Trust Indentures' Funds. The investments are classified as to credit risk by the following three categories.

Category 1 - Insured or registered securities held by the Authority in the Authority's name.

Category 2 - Uninsured and unregistered securities held by the trust department in the Authority's name.

Category 3 - Uninsured and unregistered securities held by the trust department, but not in the Authority's name.

	Category			Cost	Fair Value	Series
	1	2	3			
Restricted Cash Equivalents:						
ARK Funds U.S. Government						
Cash Management						
Corporate Cash II			113	113	113	2001
			113	113	113	
Restricted Investments:						
U. S. Treasury Bond;						
9.375%, Due 2/15/06			1,006,000	1,006,000	1,161,930	2001
U. S. Treasury Security;						
Stripped Interest,						
Payment Due 2/15/06			234,000	234,000	224,607	2001
			1,240,000	1,240,000	1,386,537	

FAIRVIEW TOWNSHIP AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

UNREALIZED GAIN (LOSS) ON INVESTMENTS

<u>2002</u>	<u>RESTRICTED INVESTMENTS</u>
Cost	1,240,000
Fair Value	<u>1,445,965</u>
Unrealized Gain (Loss) on Investments	<u>205,965</u>
<u>2003</u>	
Cost	1,240,000
Fair Value	<u>1,386,537</u>
Unrealized Gain (Loss) on Investments	<u>146,537</u>
UNREALIZED GAIN (LOSS) ON INVESTMENTS	<u>(59,428)</u>

Investment policies followed during the year did not significantly alter the categorization of investments.

The Municipality Authorities Act authorizes the Authority to invest in the following:

1. U.S. Treasury Bills
2. Short-term obligations of the U.S. Government and federal agencies
3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions
4. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision
5. Share of mutual funds whose investments are restricted to the above categories

3. FUTURE LEASE RENTAL RECEIVABLE

On August 1, 2001, the Authority and the Township entered into a lease agreement of the Sewer System, under which the Township has agreed to make lease rental payments thereunder to the Trustee as security for the Series of 2001 Bonds. The Township operates the Sewer System and has covenanted to impose and collect sewer rentals and other charges to provide for the payment of such lease rentals and to pay the operating costs of the Sewer System. The Township has pledged the revenues and receipts of the Sewer System to secure its obligations to make such lease rental payments. As of December 31, 2003 the present value of the future minimum lease rentals is \$13,850,000.

FAIRVIEW TOWNSHIP AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003

3. FUTURE LEASE RENTAL RECEIVABLE (CONTINUED)

Minimum rentals under the 2001 Bond Issues, including interest of \$6,819,563, are as follows:

<u>LEASE YEARS</u> <u>ENDING</u>	<u>RENTAL</u> <u>PAYMENT</u>
2004	1,203,348
2005	1,233,572
2006	1,235,818
2007	1,236,177
2008	1,234,245
Thereafter	<u>14,526,403</u>
	<u>20,669,563</u>

Under the 2001 Bond indenture, minimum lease rentals will be reduced by excess trustee funds invested in the 2001 Debt Service Reserve Fund as determined by the terms of the indenture. During 2003, the 2001 Debt Service Reserve Fund transferred \$72,089 to the Township's Sewer Reserve Fund for future debt service requirements. The Township has guaranteed the 2001 Bond Issue with its full faith, credit and taxing power.

4. CURRENT REFUNDING OF BONDS

On August 15, 2001, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2001 for \$15,560,000. The bond proceeds, together with other Authority funds, were used to current refund the 1991 bonds, principal of \$9,205,000, which includes bonds outstanding of \$3,875,000 and previously advanced refunded of \$5,330,000, and the 1994 bonds, principal of \$11,615,000. The Authority recognized an economic gain of approximately \$576,329 (differences between the present values of the debt service payments on the current refunded and new debt). The Guaranteed Sewer Revenue Bonds, Series of 2001, were issued for the purpose of: (1) payment of all costs and expenses of retirement of the outstanding 1991 and 1994 Bonds; (2) the payment of all costs and expenses of issuance of the Bonds; and, (3) the establishment of necessary reserves and other funds as provided for in the Indenture.

The Sewer Revenue Bonds, Series of 1965, were advance refunded in November 1987. Funds were deposited in irrevocable trust escrow accounts and invested in U. S. Treasury obligations which, together with future interest thereon, will be sufficient to redeem the bonds and pay all the related interest.

Pursuant to the defeasance provisions of the Trust Indentures, Series of 1965, the Trustee has released, canceled and discharged the liens of the Indentures. Accordingly, the assets and liabilities of the trust escrow accounts are not included in the financial statements of the Authority.

As of December 31, 2003, the following defeased sewer revenue obligations were outstanding:

1965	<u>55,000</u>
	<u>55,000</u>

FAIRVIEW TOWNSHIP AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003

5. SEWER REVENUE BONDS PAYABLE

The 2001 Bonds are secured under the related Trust Indenture by the assignment and pledge of lease rentals as stated previously in Note 3.

Scheduled maturities and interest rates of the 2001 Bonds are as follows:

2004	3.50%	565,000	2013	4.70%	745,000
2005	3.70%	615,000	2014	4.80%	785,000
2006	3.85%	640,000	2015	4.90%	820,000
2007	4.05%	665,000	2016	5.00%	860,000
2008	4.15%	690,000	2017	5.00%	905,000
2009	4.25%	720,000	2018	5.05%	945,000
2010	4.35%	755,000	2019	5.10%	995,000
2011	4.45%	780,000	2020	5.15%	1,055,000
2012	4.60%	715,000	2021	5.15%	595,000

Total Debt Service Requirements are:

<u>YEAR</u>	<u>AMOUNT</u>
2004	1,203,348
2005	1,233,572
2006	1,235,818
2007	1,236,177
2008	1,234,245
Thereafter	<u>14,526,403</u>
	<u>20,669,563</u>

6. INTER-MUNICIPAL AGREEMENT

The Authority and the Township have an agreement with the Lower Allen Township Municipal Authority for treatment of the Township's sewage originating near the common municipal boundary and transported by the Authority's collection system to the Lower Allen Township Municipal Authority treatment plant.

The original agreement was executed on December 28, 1976. Under the agreement, the municipalities pay their pro rata shares of operating and administrative costs of the treatment plant. All expenses related to this agreement are paid from the Township's Sewer Fund.

7. ESCROWS PAYABLE

The Authority requires developers to obtain letters of credit or deposit funds pursuant to an escrow agreement to provide assurance that projects will be completed according to approved specifications and on a timely basis. Should one or more of these instruments expire and a default occur, it may be necessary for the Authority to take over the defaulted project. Escrow balances as of December 31, 2003 were zero.

SUPPLEMENTAL INFORMATION

FAIRVIEW TOWNSHIP AUTHORITY
 A COMPONENT UNIT OF FAIRVIEW TOWNSHIP
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - CASH BASIS
 SERIES OF 2001
 DECEMBER 31, 2003

	CLEARING FUND	DEBT SERVICE FUND	DEBT SERVICE RESERVE FUND	SERIES OF 2001 TOTAL
ASSETS				
Restricted Cash and Cash Equivalents	98		15	113
Restricted Investments	—	<u>13,850,000</u>	1,386,537	1,386,537
Future Lease Rental Receivable			<u> </u>	<u>13,850,000</u>
TOTAL ASSETS	<u>98</u>	<u>13,850,000</u>	<u>1,386,552</u>	<u>15,236,650</u>
LIABILITIES				
Bonds Payable		13,850,000		13,850,000
CONTINGENCIES AND COMMITMENTS				
FUND BALANCES	<u>98</u>	<u> </u>	<u>1,386,552</u>	<u>1,386,650</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>98</u>	<u>13,850,000</u>	<u>1,386,552</u>	<u>15,236,650</u>

See Independent Auditor's Report.

FAIRVIEW TOWNSHIP AUTHORITY
 A COMPONENT UNIT OF FAIRVIEW TOWNSHIP
 COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - SERIES OF 2001
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>CLEARING</u>	<u>DEBT</u>	<u>DEBT</u>	<u>SERIES OF</u>
	<u>FUND</u>	<u>SERVICE</u>	<u>SERVICE</u>	<u>2001</u>
		<u>FUND</u>	<u>RESERVE</u>	<u>TOTAL</u>
CASH RECEIPTS				
Investment Income	204		94,393	94,597
Lease Rentals	1,205,948			1,205,948
Unrealized Gain (Loss) on Investments	<u> </u>	<u> </u>	<u>(59,428)</u>	<u>(59,428)</u>
TOTAL CASH RECEIPTS	<u>1,206,152</u>	<u> </u>	<u>34,965</u>	<u>1,241,117</u>
CASH DISBURSEMENTS				
Bond Principal		550,000		550,000
Bond Interest		655,948		655,948
Transfers to (from) Other Funds	1,205,948	<u>(1,205,948)</u>		
Administrative Fees				
Financial Services Fees			22,940	22,940
Transfer to Township	<u>629</u>	<u> </u>	<u>71,460</u>	<u>72,089</u>
TOTAL CASH DISBURSEMENTS	<u>1,206,577</u>	<u> </u>	<u>94,400</u>	<u>1,300,977</u>
EXCESS (DEFICIT) CASH RECEIPTS OVER DISBURSEMENTS	<u>(425)</u>	<u>0</u>	<u>(59,435)</u>	<u>(59,860)</u>
FUND BALANCE, JANUARY 1, 2003	<u>523</u>	<u>0</u>	<u>1,445,987</u>	<u>1,446,510</u>
FUND BALANCE, DECEMBER 31, 2003	<u>98</u>	<u>0</u>	<u>1,386,552</u>	<u>1,386,650</u>

See Independent Auditor's Report.

Chubb and Associates

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH BOND TRUST INDENTURES

Members of the Authority Board
Fairview Township Authority
New Cumberland, Pennsylvania

We have audited, in accordance with U.S. generally accepted auditing standards, the statements of assets, liabilities and fund balances - cash basis of the Fairview Township Authority, a component unit of Fairview Township, as of December 31, 2003 and the related statement of cash receipts and disbursements for the year then ended, and have issued our report thereon dated January 30, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions, or conditions of the Bond Trust Indenture for the Series of 2001 Bond Issue with Allfirst Bank, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended for the information and use of the Members of the Board, the management of Fairview Township Authority, a component unit of Fairview Township, and Allfirst Bank. However, this report is a matter of public record and its distribution is not limited.

Chubb and Associates

CHUBB AND ASSOCIATES
Certified Public Accountants

January 30, 2004