

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania

FINANCIAL STATEMENTS

For the Years Ended December 31, 1997 and 1996

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania
December 31, 1997 and 1996

TABLE OF CONTENTS

	<u>Page No.</u>
Organization	1
Independent Auditors' Report	2
Financial Statements:	
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 22
Supplementary Information:	
Independent Auditors' Report on Supplementary Information	23
Supplementary Schedule of Revenues and Expenses	24

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania

ORGANIZATION

The Lower Providence Township Municipal Authority is a body corporate and politic, organized and existing under and by virtue of the laws of the Commonwealth of Pennsylvania having been incorporated on May 4, 1964 under the Municipality Authorities Act of 1945 pursuant to an Ordinance duly enacted by the Board of Supervisors of the Township of Lower Providence, Montgomery County, Pennsylvania.

AUTHORITY BOARD MEMBERS

Deborah L. McQuiston	Chairman
Douglas Hager	Vice Chairman
Deborah L. McQuiston	Treasurer
William Markley	Secretary
Jonathan Rinde	Member
Harry Lasorda	Member

SOLICITOR

Heaney, Kilcoyne, Furey & Baldassari
Trooper-Norristown, Pennsylvania

CONSULTING ENGINEERS

Chambers Associates, Inc.
Center Square, Pennsylvania

KIMMEL, LORAH + ASSOCIATES LLP
Certified Public Accountants

Valley Forge Corp. Center 450 East Main Street
935 South Trooper Road Lansdale, PA 19446
Norristown, PA 19403 215/368-3700
610/666-0450 Fax (215) 362-1950
Fax (610) 666-1950
E-mail: klacpa@aol.com

James S. Lorah, CPA
Robert L. Gaugler, CPA
Barry W. Fry, CPA
Barry E. McFarland, CPA
Robert Stevenson, CPA

Donald R. Kalb, CPA
Kathleen A. Becker, CPA
Kelly L. Moono, CPA
Robert E. Hartzell, CPA
Mary Ann Ricci, CPA
Gail R. Rainone, CPA

June 9, 1998
Lansdale, Pennsylvania

INDEPENDENT AUDITORS' REPORT

Board of Directors of
Lower Providence Township Municipal Authority
2750 Egypt Road
Audubon, Pennsylvania 19403

We have audited the accompanying balance sheet of Lower Providence Township Municipal Authority, Montgomery County, Pennsylvania, component unit of Lower Providence Township, as of December 31, 1997 and 1996, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years 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 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 Lower Providence Township Municipal Authority as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years ended December 31, 1997 and 1996 in conformity with generally accepted accounting principles.

Kimmel, Lorah + Associates LLP

Certified Public Accountants

LIABILITIES

	1997	1996
Liabilities:		
Portion of long-term debt	\$110 000	\$105 000
Portion of capital lease obligation	32 760	32 521
Payable - trade	56 506	66 432
Accrual payable	26 203	30 853
Expenses	87 278	63 005
Interest payable	52 460	50 481
To Lower Providence Township	2 000	16 000
Revenue - customer deposits	11 112	18 310
Revenue - merchandise certificate	3 596	3 745
Total current liabilities	381 915	386 347
Debt, less current portion	6 931 107	6 635 000
Other obligations, less current portion	130 762	143 406
Total liabilities	<u>7 443 784</u>	<u>7 164 753</u>
and contingencies		
 Unaudited capital:		
Grants:		
Commonwealth of Pennsylvania Open Space Acquisition Grant	1 184 644	1 184 644
Commonwealth of Pennsylvania Legislative Initiative Program Grant	20 000	20 000
Accumulated earnings (deficit)	(1 534 024)	(1 097 464)
Total fund equity (deficit)	(329 380)	107 180
Total liabilities and fund equity	<u>\$7 114 404</u>	<u>\$7 271 933</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 For the Years Ended December 31, 1997 and 1996

	1997	1996
Operating revenues	\$1 895 991	\$1 796 184
Operating expenses	<u>1 967 673</u>	<u>1 905 605</u>
Net operating income (loss)	_ _ (71 682)	_ (109 421)
Nonoperating revenues (expenses):		
Interest income	27 565	59 233
Interest expense	(381 497)	(378 658)
Amortization of debt issuance costs	<u>(10 946)</u>	<u>(10 946)</u>
Total nonoperating revenues (expenses)	<u>(364 878)</u>	<u>(330 371)</u>
Net income (loss)	(436 560)	(439 792)
Retained earnings (deficit) - beginning	<u>(1 097 464)</u>	<u>(657 672)</u>
Retained earnings (deficit) - ending	<u><u>(\$1 534 024)</u></u>	<u><u>(\$1 097 464)</u></u>

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 1997 and 1996

Increase (Decrease) in Cash and Cash Equivalents

	<u>1997</u>	<u>1996</u>
Cash flows from (used for) operating activities:		
Net operating income (loss)	(\$71,682)	(\$109,421)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	143,919	121,931
Changes in assets - (increases) decreases:		
Accounts receivable, trade	13,267	(20,962)
Receivable, other	-	(2,864)
Receivable - American Golf Corporation	3,454	9,378
Inventory	(5,853)	(15,696)
Prepaid expenses	(12,378)	2,600
Security deposits	(770)	(770)
Changes in liabilities - increases (decreases):		
Accounts payable - Trade	(9,926)	8,542
Accounts payable - construction	(4,650)	7,804
Accrued expenses	24,273	15,558
Deferred revenues	(7,347)	(2,000)
Payable to Lower Providence Township	(14,000)	9,000
Total adjustments	<u>129,989</u>	<u>132,521</u>
Net cash provided by (used for) operating activities	<u>58,307</u>	<u>23,100</u>
Cash flows from noncapital financing activities:		
Repayment of advance payable - Lower Providence Twp.	-	(50,000)
Proceeds of promissory notes - Lower Providence Twp.	<u>-</u>	<u>115,000</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>65,000</u>

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS, (Continued)
For the Years Ended December 31, 1997 and 1996

Increase (Decrease) in Cash and Cash Equivalents

	1997	1996
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(25 000)	-
Acquisition and construction of capital assets	(244 324)	(684 363)
Principal paid on capital lease obligations	(35 051)	(24 117)
Interest paid on capital lease obligations	(12 694)	(9 640)
Interest paid on long-term debt	(40 717)	(243 833)
Net cash provided by (used for) capital and related financing activities	(357 786)	(961 953)
Cash flows from investing activities:		
Interest received on investments	27 565	59 233
Net cash provided by investing activities	27 565	59 233
Net increase (decrease) in cash and cash equivalents	(271 914)	(814 620)
Cash and cash equivalents at beginning of period	739 659	1 554 279
Cash and cash equivalents at end of period	\$467 745	\$739 659

Noncash investing, capital, and financing activities:

Capital lease obligations of \$172,044 were incurred during the period ended December 31, 1996 when the Authority entered into an equipment lease.

On May 29, 1996 \$100,000 of interest expense on long term debt was added to the notes payable.

On November 26, 1996 \$80,000 of principal payment on long term debt was added to the notes payable.

Fully depreciated equipment totaling \$3,007 was disposed of during the year ended December 31, 1997.

On June 1, 1997 \$147,033 of interest expense on long term debt was added to the notes payable.

On November 1, 1997 \$32,041 of interest expense on long term debt was added to the notes payable.

On December 1, 1997 \$80,000 of principal payment and \$147,033 of interest expense on long term debt was added to the notes payable.

Capital lease obligations of \$22,646 were incurred during the period ended December 31, 1997 when the Authority entered into an equipment lease.

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 1997 and 1996

Summary of Significant Accounting Policies:

Concerning the Authority: On May 4, 1964 an ordinance was enacted by the Supervisors of Lower Providence Township creating 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 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. 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. The Township has agreed to aid and assist the Authority in the maintenance and operation of the General Washington facility to the extent reasonably possible. Also, substantially all of the Authority's debt is payable to the Township. These are the separate component unit financial statements of Lower Providence Township Municipal Authority.

NOTES TO FINANCIAL STATEMENTS, Continued

Summary of Significant Accounting Policies (Cont'd.):

Lower Providence General Washington Operations: The Authority, in relation to the Intermunicipal Agreement, 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 being 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 use of this parcel. Parcel B being the General Washington Recreation Center and 9.5 acres of land surrounding the facility. Sales include all revenues from golf fees and rentals; ice skating fees and rentals; swimming fees; catering sales and rentals; merchandise sales; and instruction fees.

Basis of Presentation and Accounting: The 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.

NOTES TO FINANCIAL STATEMENTS, Continued

Summary of Significant Accounting Policies, (Cont'd.):

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.

Accounts Receivable: Accounts receivable arise from the facilities sales to Montgomery County residents and businesses. The Authority does not normally require collateral or other security to support credit sales. Management believes all accounts receivable are current and fully collectible, therefore, the Authority has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable. Bad debts as determined under this method did not vary significantly from the reserve method. Included in operating expenses are bad debts of \$ - 0 - for 1997 and 1996.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Property, Plant and Equipment: The Authority, as owner-operator, is an "Operating Authority" with respect to the operation of the Lower Providence General Washington facilities. Therefore it records the cost of the property, plant and equipment of the facilities on its own balance sheet, at cost.

NOTES TO FINANCIAL STATEMENTS, Continued

Summary of Significant Accounting Policies (Cont'd):

Property, Plant and Equipment (Cont'd.):

Depreciation of the Authority property and equipment is calculated using the assets' estimated useful life. The asset lives are as follows:

Land improvements	20 - 40 yrs.
Building and improvements	10 - 40 yrs.
Furniture, fixtures and equipment	3 - 20 yrs.

One half of one year's depreciation is taken in the year in which the asset is placed in service. Depreciation is recorded using the straight-line method.

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

Reclassification: Certain prior year amounts have been reclassified for comparative purposes.

Amortization of Debt Issuance Costs: The debt issuance costs are amortized over the life of the debt on the straight-line method. The accumulated amortization was \$25,564 and \$36,510 as of December 31, 1997 and 1996, respectively.

Receivable - American Golf Corporation:

As of December 31, 1997, this balance consists of \$12,000 for overbilling of the 1997 base management fee, which was adjusted by American Golf Corporation in May 1998. As of December 31, 1996, the balance consisted of \$7,000 for overbilling of the 1996 base management fee, which was adjusted by American Golf Corporation in June 1997. It also consisted of \$8,454 on deposit with American Golf, a bill paying agent for the Authority to be applied toward the payment of future Authority invoices.

Restricted Assets - P.L.G.I.T. Account:

On November 15, 1995 the Township issued General Obligation Bonds, Series of 1995. A portion of the proceeds of the Bond Series of 1995 was transferred to the Authority to provide funds, together with its interest, for improvements to the General Washington facilities.

NOTES TO FINANCIAL STATEMENTS, Continued

Property, Plant and Equipment: Property, plant and equipment at December 31, 1997 and 1996 are as follows:

	<u>1997</u>	<u>1996</u>
Land	\$3 185 540	\$3 185 540
Land improvements	396 692	342 118
Building and improvements	1 884 871	1 835 083
Furniture, fixtures and equipment	<u>726 246</u>	<u>674 373</u>
	6 194 349	6 037 114
Less: Accumulated depreciation	<u>(360 989)</u>	<u>(220 077)</u>
	5 832 360	5 817 037
Construction in progress	394 073	286 345
Deferred costs - engineering/architectural fees	<u>42 059</u>	<u>42 059</u>
Net property, plant and equipment	<u>\$6 268 492</u>	<u>\$6 145 441</u>

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. Accordingly, the deed to the General Washington Recreation Center was recorded as such, that parcel A was purchased, in part, with funds provided by the Montgomery County Open Space Grant and shall be maintained as open space in accordance with the Montgomery County Open Space Program.

Commonwealth of Pennsylvania Legislative Initiative Program Grant:

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

Intermunicipal Agreement - Related Party Transaction:

On July 18, 1994, an Intermunicipal Agreement was signed between Lower Providence Township and 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

NOTES TO FINANCIAL STATEMENTS, Continued

Intermunicipal Agreement - Related Party Transaction (Cont'd.):

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 these 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.

Leases:

Operating leases:

- (1) Dishwashing equipment commitment under a 12 month noncancellable lease, dated October 14, 1994, payable \$60 per month with an option to continue from year to year, thereafter. There is 1 payment remaining on the current year renewal. The lease rental expensed was \$540 and \$726 for 1997 and 1996, respectively.
- (2) Dishwashing equipment commitment under a 12 month noncancellable lease dated June 2, 1995, payable \$100 per month with 1 payment remaining. The lease includes a renewal option, to continue from year to year, thereafter. The lease rental expensed was \$1 199 and \$1 224 for 1997 and 1996, respectively.

Leases (Cont'd.):

Operating leases (Cont'd.):

Minimum lease payments as of December 31, 1997 are as follows:

Year ending <u>December 31,</u> 1998	\$160
--	-------

Capital leases:

- (1) Tractor commitment under a 48 month noncancellable lease, dated March 28, 1995, payable at \$529 per month with 14 payments remaining.
- (2) Ice Machines commitment under a 60 month noncancellable lease, dated August 3, 1994, payable \$420 per month with 20 payments remaining.
- (3) Fax machine commitment under a 36 month noncancellable lease, dated May 12, 1995, payable \$80 per month with 4 payments remaining.
- (4) Pro Shop commitment under a 84 month noncancellable lease, dated March 20, 1996, payable \$1,746 per month with 65 payments remaining.
- (5) Fareway/utility mower commitment under a 60 month noncancellable lease, dated March 28, 1996, payable \$770 per month with 38 payments remaining.
- (6) Utility truck commitment under a 60 month noncancellable lease, dated April 24, 1996, payable \$257 per month with 40 payments remaining.
- (7) Lawn mowers/12' Rotary commitment of a 60 month noncancellable lease, dated April 8, 1997, payable at \$458 per month with 52 payments remaining.

NOTES TO FINANCIAL STATEMENTS, Continued

Leases (Cont'd.):

Capital leases (Cont'd.):

Minimum lease payments for the capital leases as of December 31, 1997 are as follows:

For the year ended <u>December 31,</u>	
1998	\$50 561
1999	43 190
2000	38 772
2001	29 273
2002	31 515
Remaining years	<u>-</u>
Total minimum lease payments	193 311
Less estimated executory cost	<u>3 299</u>
Net minimum lease payments	190 012
Less interest	<u>26 490</u>
Present value of minimum lease payments	163 522
Less current portion	<u>32 760</u>
Capitalized lease obligations	<u>\$130 762</u>

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

<u>Class of Property</u>	<u>December 31, 1997</u>	<u>December 31, 1996</u>
Building and improvements	\$119 354	\$119 354
Furniture, fixtures and equipment	128 155	108 517
Less: Accumulated depreciation	<u>(36 403)</u>	<u>(21 646)</u>
	<u>\$211 106</u>	<u>\$206 225</u>

NOTES TO FINANCIAL STATEMENTS, Continued

Advances payable - Lower Providence Township/Related Party:

In 1997, the Township transferred a copier, with a cost of \$2,000 to the Authority Office. \$2,000 has been accrued as of December 31, 1997.

Long-term Debt/Related Party:

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 periods ended December 31, 1997 and 1996:

Amount of Original Issue	\$5 235 000
Range of Final Maturity Dates	1997 - 2024
Range of Interest Rates %	3.60% - 6.00%
Balance December 31, 1995	\$5 160 000
Issued 1996 and 1997	\$ -
Retired 1996	\$80 000
Retired 1997	\$80 000
Balance December 31, 1997	\$5 000 000

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

NOTES TO FINANCIAL STATEMENTS, Continued

Long-term Debt/Related Party (Cont'd.):

Washington facilities. The following is a summary of changes in this long-term debt for the periods ended December 31, 1997 and 1996:

Amount of Original Issue	\$1 290 000
Range of Final Maturity Dates	1997 - 2022
Range of Interest Rates %	3.65% - 5.57%
Balance December 31, 1995	\$1 290 000
Issued 1996 and 1997	\$ -
Retired 1996	\$ -
Retired in 1997	\$25 000
Balance December 31, 1997	\$1 265 000

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>
November 29, 1995	\$75 000	November 29, 2002
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	<u>227 033</u>	December 1, 2004
	<u>\$776 107</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 \$368,803 and \$369,018 for the periods ended December 31, 1997 and 1996, respectively.

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:

NOTES TO FINANCIAL STATEMENTS, Continued

Long-term Debt/Related Party (Cont'd.):

<u>Year Ending December 31,</u>	
1998	\$464 315
1999	469 518
2000	469 192
2001	463 423
2002	556 619
2003 - 2024	<u>10 953 336</u>
Total	13 376 403
Less interest	<u>6 335 296</u>
Outstanding principal	<u>\$7 041 107</u>

Deposits with Financial Institutions and Investments:

The Authority's deposits with financial institutions and investments, which are carried at cost at December 31, 1997 and 1996, consist of the following:

	<u>1997</u>		<u>1996</u>	
	<u>Carrying Amount</u>	<u>Bank Balances Cost</u>	<u>Carrying Amount</u>	<u>Bank Balances Cost</u>
Deposit with financial institutions:				
Corestates Bank	\$11 942	\$13 845	\$46 190	\$45 672
Commerce Bank	106 561	105 720	-	-
Investments:				
Pennsylvania Local Government Investment Trust (P.L.G.I.T.)	<u>348 267</u>	<u>348 267</u>	<u>692 494</u>	<u>692 494</u>
	<u>\$466 770</u>	<u>\$467 832</u>	<u>\$738 684</u>	<u>\$738 166</u>

The following is a schedule of the Authority's deposits with financial institutions (at bank balances) and investments (at cost) at December 31, 1997 and 1996 categorized by risk:

	<u>Category</u>			<u>December 31, 1997</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Bank Balances/ Cost</u>	<u>Market Values</u>
	Deposit with financial institutions:				
Cash in bank:					
Corestates Bank	\$13 845	\$ -	\$ -	\$13 845	\$13 845
Commerce Bank	100 000		5 720	105 720	105 720
Investments:					
Cash equivalents:					
P.L.G.I.T.	<u>N/A</u>	<u>N/A</u>	<u>348 267</u>	<u>348 267</u>	<u>348 267</u>
Total	<u>\$113 845</u>	<u>\$ -</u>	<u>\$353 987</u>	<u>\$467 832</u>	<u>\$467 832</u>

NOTES TO FINANCIAL STATEMENTS, Continued

Deposits with Financial Institutions and Investments (Cont'd):

	<u>December 31, 1996</u>				
	<u>Category</u>			<u>Bank</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balances/</u>	<u>Values</u>
				<u>Cost</u>	
Deposit with financial institutions:					
Cash in bank:					
Corestates Bank	\$45 672	\$ -	\$ -	\$45 672	\$45 672
Investments:					
Cash equivalents:					
P.L.G.I.T.	<u>N/A</u>	<u>N/A</u>	<u>692 494</u>	<u>692 494</u>	<u>692 494</u>
Total	<u>\$45 672</u>	<u>\$ -</u>	<u>\$692 494</u>	<u>\$738 166</u>	<u>\$738 166</u>

Category of Risk Level with respect to Deposits with Financial Institutions:

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 institution, or by its trust department or agent, but not in the Authority's name.

Category of risk level with respect to Investments:

1. Insured or registered with securities held by the Authority or 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's, or by its trust department or agent but not in the Authority's name.

Construction in Progress:

The Authority has the following projects under construction as of December 31, 1997:

Electric, Rewiring and Vault: - This project is to rewire the entire electrical service and to erect a structure to house the electrical equipment. The contractor has defaulted on the contract. The Authority is currently pursuing cost reimbursement from the contract's performance maintenance bond. The total cost incurred to date was

NOTES TO FINANCIAL STATEMENTS, Continued

Construction in Progress (Cont'd.):

\$290,569. It is estimated that the Authority's share of cost to complete the project should be less than \$34,000. The project is expected to be completed by December 31, 1998.

Drainage improvements: This project is for the total reconstruction and drainage improvement on three golf course greens and drainage improvement only on three additional golf course greens. The total costs incurred to date was \$118,657. The project was completed by December 31, 1997. However, the three greens with drainage improvements only, total cost \$25,821, were in service at December 31, 1997. The remaining project was not in service until May 1998, total cost \$92,836.

Renovation of Lobby and Bathrooms: This project is for the total renovation of north lobby and ballroom bathroom to include plumbing and electric. The total costs incurred to date, consisting of engineering, architect and bid advertisement fees, were \$10,668. The estimated costs to complete the project is \$115,000. The project is expected to be completed by June, 1998.

Deferred Costs - engineering/architectural fees:

The following project is in the planning stage, in which the scope and ultimate cost of the project are undecided as of the date of this report:

Ice Skating Rink - This project is to expand and relocate the entrance, to renovate the interior and to replace the ice making machine. The total costs incurred to date, consisting of architectural fees, were \$42,059.

NOTES TO FINANCIAL STATEMENTS, Continued

Management Agreement - Lower Providence General Washington Facilities:

On May 1, 1995 the Authority entered into a management agreement with American Golf Corporation (AGC) granting the Corporation the sole and exclusive right to manage and operate the General Washington Recreation Facility pursuant to the terms of the Agreement. The three (3) year Agreement shall commence on May 2, 1995 and at the Authority's option shall be extended for up to two (2) successive periods of one (1) year each. In consideration of these services, the Authority shall pay a monthly base management fee equal to \$7,000 in the first year; \$8,000 in the second year and \$9,000 in the third year. However, for the second year and thereafter, the base management fee shall be increased only if the facility has generated gross revenues equal to ninety percent of the amount reflected in the approved annual plan for the preceding year. In addition, an incentive management fee will be paid equal to ten percent of each \$100,000 of gross revenues exceeding the following benchmarks: \$1,300,000 in the first year; \$1,400,000 in the second year and \$1,500,000 in the third year. However, in no event shall the incentive management fee in any year exceed fifty percent of the amount of the base management fee; and at such time as ten percent of all gross revenues in excess of the appropriate benchmark in a year equals fifty percent of the base management fee, American Golf Corporation shall immediately be entitled to the full amount of the incentive management fee for that operating year. The incentive management fee benchmark is measured on a fiscal year basis ending April 30. The total management fees expensed in 1997 and 1996 were \$124,000 and \$107,000, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

Management Agreement - Lower Providence General Washington Facilities (Cont'd.):

On December 10, 1997 the Authority amended the original management agreement. The five (5) year agreement shall commence on January 1, 1998. The Authority has the right to terminate this Agreement without penalty or cause, on December 31, 2000, upon written notice to AGC which must be given prior to October 1, 2000. The monthly base management fee is \$10,500; \$11,000 in the second year; \$11,583 in the third year; \$12,167 in the fourth year and \$12,667 in the fifth year. In addition, the incentive management fee will be paid equal to five percent of each \$100,000 of gross revenues exceeding the following benchmarks: \$2,000,000 in the first year; \$2,100,000 in the second year; \$2,200,000 in the third year; \$2,250,000 in the fourth year and \$2,250,000 in the fifth year.

Subsequent Events:

The Authority plans to obtain additional financing from Lower Providence Township on an as needed basis through at least December 31, 1998 to cover deficit cash flow requirements of the Authority. During that period of time the Authority intends to develop a plan to increase revenues and reduce expenditures as necessary to overcome current deficit operations of the Authority.

On August 11, 1997, Lower Providence Township passed a Resolution which states that Lower Providence Township is committed to continuing to provide Lower Providence Township Municipal Authority with additional financing, on an as needed basis, through December 31, 1997 and thereafter, on the same terms and conditions as the 1995 and 1996 financing, so as to insure the preservation of the open space, the continuation of public recreational activities and the generation of revenues therefrom.

Future Construction Projects:

Carpeting: This project is to supply and install new carpet in the main ballroom and perform miscellaneous items. The estimated costs to complete the project is \$20,000. The project is expected to be completed by September 30, 1998.

Renegotiation of Secretary/Treasurer's fees:

Lower Providence Township's Secretary/Treasurer provided services to the Authority. As of December 31, 1997, the Authority is negotiating with the Township as to the amount that should be paid for these services.

Commitments and Contingencies:

A suit has been filed against the Authority claiming damages in excess of \$50,000. Apparently there is no insurance coverage for this claim because the incident occurred prior to the Authority's ownership of the General Washington Recreation Center. As a result of the lack of insurance coverage, it is possible that the Authority may incur liability on this claim. However, the Authority feels that it has a very strong defense in that it did not own the property at the time of the accident which allegedly occurred in 1993.

KIMMEL, LORAH + ASSOCIATES LLP
Certified Public Accountants

Valley Forge Corp. Center
935 South Trooper Road
Norristown, PA 19403
610/666-0450
Fax (610) 666-1950

450 East Main Street
Lansdale, PA 19446
215/368-3700
Fax (215) 362-1950

E-mail: klacpa@aol.com

James S. Lorah, CPA
Robert L. Gaugler, CPA
Barry W. Fry, CPA
Barry E. McFarland, CPA
Robert Stevenson, CPA

Donald R. Kalb, CPA
Kathleen A. Becker, CPA
Kelly L. Moono, CPA
Robert E. Hartzell, CPA
Mary Ann Ricci, CPA
Gail R. Rainone, CPA

June 9, 1998
Lansdale, Pennsylvania

Board of Directors of
Lower Providence Township Municipal Authority
2750 Egypt Road
Audubon, Pennsylvania 19403

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

Our report on our audit of the basic financial statements of Lower Providence Township Municipal Authority for the years ended December 31, 1997 and 1996 appears on page 2. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Revenues and Expenses, on page 24, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Kimmel, Lorah + Associates LLP

Certified Public Accountants

ITY
NSES

Information)

<u>Pool</u>	<u>General & Administrative</u>	<u>General Total</u>
<u>83 628</u>	<u>\$3 646</u>	<u>\$1 895 991</u>
		211 553
45 748	123 963	805 167
	117 000	117 000
	14 158	14 232
24 151	49 580	111 455
	3 969	44 376
		8 969
22 041	86 849	164 508
30	10 888	27 174
	1 070	39 431
	16 482	24 867
2 377	15 749	77 211
	352	11 241
	12 993	12 993
	3 223	13 218
	42 787	42 787
	<u>97 572</u>	<u>97 572</u>
<u>94 347</u>	<u>596 635</u>	<u>1 823 754</u>
(10 719)	(592 989)	72 237
<u>(5 163)</u>	<u>(8 920)</u>	<u>(143 919)</u>
<u>(15 882)</u>	<u>(\$601 909)</u>	<u>(\$71 682)</u>

