

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania

FINANCIAL STATEMENTS

For the Years Ended December 31, 1999 and 1998

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania
December 31, 1999 and 1998

TABLE OF CONTENTS

	<u>Page No.</u>
Organization	1
Independent Auditors' Report	2
Financial Statements:	
Balance Sheets	3
Statement of Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 24
Supplementary Information:	
Independent Auditors' Report on Supplementary Information	25
Supplementary Schedule of Revenues and Expenses	26

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

**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
Neal Basile	Vice Chairman
Deborah L. McQuiston	Treasurer
William Markley	Secretary
Jonathan Rinde	Member
Douglas Hager	Member
John Rafferty	Member
Paul Belyus	Member

SOLICITOR

Furey & Baldassari, P.C.
Fairview Village, Pennsylvania

CONSULTING ENGINEERS

Chambers Associates, Inc.
Center Square, Pennsylvania

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

March 6, 2000
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, 1999 and 1998, 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 audits.

We conducted our audits 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 audits provide 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, 1999 and 1998, and the results of its operations and its cash flows for the years ended December 31, 1999 and 1998 in conformity with generally accepted accounting principles.

Certified Public Accountants

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
BALANCE SHEETS
December 31, 1999 and 1998

ASSETS

	1999	1998
Current assets:		
Cash and cash equivalents:		
Petty cash	\$975	\$975
Cash in bank	41 848	28 388
P.L.G.I.T. accounts	184 516	-
Total cash and cash equivalents	227 339	29 363
Accounts receivable, trade	-	24 207
Receivable - American Golf Corporation	-	11 188
Inventory	23 790	34 424
Prepaid expenses	-	8 482
Total current assets	251 129	107 664
Restricted cash and cash equivalents -		
P.L.G.I.T. accounts	-	136 048
Property, plant and equipment, net of		
accumulated depreciation (at cost)	6 200 606	6 265 984
Debt issuance costs, net of amortization	248 055	268 191
Security deposits	2 149	2 149
Total assets	<u>\$6 701 939</u>	<u>\$6 780 036</u>

LIABILITIES

	1999	1998
Current liabilities:		
Demand notes payable, Lower Providence Twp.	\$1 096 295	\$414 3
Current portion of long-term debt	155 000	125 0
Current portion of capital lease obligation	34 177	32 8
Accounts payable - trade	86 865	63 9
Accrued expenses	45 953	30 4
Accrued interest payable	80 473	76 0
Payable to Lower Providence Township	17 000	1 0
Deferred revenue - customer deposits	18 974	25 2
Deferred revenue - merchandise certificate	3 036	3 5
Total current liabilities	1 537 773	772 3
Long-term debt, less current portion	7 151 106	7 306 1
Deferred amount on refunded 1994 series debt, net of amortization	(468 485)	(497 6
Capital lease obligations, less current portion	56 223	90 5
Total liabilities	<u>8,276,617</u>	<u>7,671,3</u>
Commitments and contingencies	-	-
Fund Equity:		
Contributed capital:		
Capital Grants:		
Montgomery County Open Space Acquisition Grant	1 184 644	1 184 6
Commonwealth of Pennsylvania Legislative Initiative Program Grant	20 000	20 0
Retained earnings (deficit)	(2 779 322)	(2 095 9
Total fund equity (deficit)	<u>(1 574 678)</u>	<u>(891 2</u>
Total liabilities and fund equity	<u>\$6 701 939</u>	<u>\$6 780 0</u>

See Accompanying Notes

DRAFT
 FOR DISCUSSION PURPOSES ONLY
 SUBJECT TO REVISION

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Operating revenues	\$1 604 376	\$1 851 582
Operating expenses	<u>1 925 310</u>	<u>1 979 712</u>
Net operating income (loss)	<u>-(320 934)</u>	<u>-(128 130)</u>
Nonoperating revenues (expenses):		
Interest income	6 032	10 702
Interest expense	(319 204)	(387 248)
Amortization of debt issuance costs	(20 136)	(11 554)
Amortization of deferred amount on refunded 1994 series debt	(29 145)	(2 553)
Write-down 1994 architectural fees for design work on future ice skating designs	-	(42 059)
Loss on disposal of fixed assets	<u>-</u>	<u>(1 069)</u>
Total nonoperating revenues (expenses)	<u>(362 453)</u>	<u>(433 781)</u>
Net income (loss)	(683 387)	(561 911)
Retained earnings (deficit) - beginning	<u>(2 095 935)</u>	<u>(1 534 024)</u>
Retained earnings (deficit) - ending	<u>(\$2 779 322)</u>	<u>(\$2 095 935)</u>

See Accompanying Notes

DRAFT
FOR DISCUSSION PURPOSES ON
SUBJECT TO REVISION

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 1999 and 1998

Increase (Decrease) in Cash and Cash Equivalents

	<u>1999</u>	<u>1998</u>
Cash flows from (used for) operating activities:		
Net operating income (loss)	(\$320,934)	(\$128,130)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	169,692	157,119
Changes in assets - (increases) decreases:		
Accounts receivable, trade	24,207	2,535
Receivable, other	-	2,864
Receivable - American Golf Corporation	11,188	812
Inventory	10,634	(604)
Prepaid expenses	8,482	12,182
Changes in liabilities - increases (decreases):		
Accounts payable - trade	22,938	7,421
Accounts payable - construction	-	(26,203)
Accrued expenses	15,500	(56,825)
Deferred revenues	(6,723)	14,025
Payable to Lower Providence Township	<u>16,000</u>	<u>-</u>
Total adjustments	<u>271,918</u>	<u>113,326</u>
Net cash provided by (used for) operating activities	<u>(49,016)</u>	<u>(14,804)</u>
Cash flows from noncapital financing activities:		
Proceeds of demand note - Lower Providence Township	<u>250,000</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>250,000</u>	<u>-</u>

See Accompanying Notes

DRAFT
 FOR DISCUSSION PURPOSES ON
 SUBJECT TO REVISION

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS, (Continued)
For the Years Ended December 31, 1999 and 1998

Increase (Decrease) in Cash and Cash Equivalents

	<u>1999</u>	<u>1998</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	-	(50 000)
Acquisition and construction of capital assets	(104 314)	(201 671)
Principal paid on capital lease obligations	(32 969)	(37 223)
Interest paid on capital lease obligations	(7 143)	(9 338)
Net cash provided by (used for) capital and related financing activities	(144 426)	(298 232)
Cash flows from investing activities:		
Interest received on investments	5 370	10 702
Net cash provided by investing activities	5 370	10 702
Net increase (decrease) in cash and cash equivalents	61 928	(302 334)
Cash and cash equivalents at beginning of period	165 411	467 745
Cash and cash equivalents at end of period	\$227 339	\$165 411

Noncash investing, capital, and financing activities:

- 1) On June 1, 1998 a promissory note due on demand was executed for \$60,000 of principal payment and \$354,325 of interest expense on long term debt.
- 2) During 1998, a computer not fully depreciated was given to Lower Providence Township as partial repayment of \$1,000 on the payable to the Township, resulting in a gain on disposition of \$419.
- 3) In August, 1998 a capital lease was terminated and replaced with an operating lease. Ice machines not fully depreciated were returned and the remaining capital lease obligation was written off, resulting in a gain of \$380.
- 4) Ice Skating equipment, not fully depreciated, was disposed of during 1998, resulting in a loss of \$1,868.
- 5) During 1998, the Authority Board determined that the architectural cost incurred in 1994 for the design work prepared for renovations to the ice skating rink were not going to be utilized and should be written off, in the amount of \$42,059.
- 6) On November 16, 1998 the Authority and the Township amended their intermunicipal agreement, resulting in the refunding of \$4,815,000 of Authority debt, as more fully explained in the long-term Debt/Related Party note to the financial statements.
- 7) During 1999 promissory notes due on demand were executed for \$125,000 of principal payment and \$307,633 of interest expense on long term debt, less \$663 of interest owed to the Authority.

See Accompanying Notes

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 1999 and 1998**

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.

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

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.

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

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 \$31,042 for 1999 and \$ - 0 - for 1998.

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.

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.

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 \$35,633 and \$15,496 as of December 31, 1999 and 1998, respectively.

Receivable - American Golf Corporation:

As of December 31, 1998, this balance consists of \$11,188 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.

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

NOTES TO FINANCIAL STATEMENTS, Continued

Property, Plant and Equipment: Property, plant and equipment at December 31, 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
Land	\$3 185 540	\$3 185 540
Land improvements	490 611	490 010
Building and improvements	2 126 345	2 072 188
Furniture, fixtures and equipment	<u>786 584</u>	<u>737 029</u>
	6 589 080	6 484 767
Less: Accumulated depreciation	<u>(679 043)</u>	<u>(509 352)</u>
	5 910 037	5 975 415
Construction in progress	<u>290 569</u>	<u>290 569</u>
Net property, plant and equipment	<u>\$6 200 606</u>	<u>\$6 265 984</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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 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 \$719 and \$719 for 1999 and 1998, 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 \$1,199 for 1999 and 1998, respectively.
- (3) Ice machines commitment under a 60 month noncancellable lease, dated August 5, 1998, payable \$460 per month with 44 payments remaining. The lease rental expensed was \$5,520 and \$1,840 for 1999 and 1998, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

Leases (Cont'd.):

Operating leases (Cont'd.):

Minimum lease payments as of December 31, 1999 are as follows:

<u>Year ending</u> <u>December 31,</u>	
2000	\$5 680
2001	5 520
2002	5 520
2003	<u>3 680</u>
	<u>\$20 400</u>

Capital leases:

- (1) Pro Shop building commitment under a 84 month noncancellable lease, dated March 20, 1996, payable \$1,746 per month with 41 payments remaining.
- (2) Fairway/utility mower commitment under a 60 month noncancellable lease, dated March 28, 1996, payable \$770 per month with 14 payments remaining.
- (3) Utility truck commitment under a 60 month noncancellable lease, dated April 24, 1996, payable \$257 per month with 17 payments remaining.
- (4) Lawn mowers/12' Rotary commitment of a 60 month noncancellable lease, dated April 8, 1997, payable at \$458 per month with 28 payments remaining.

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

NOTES TO FINANCIAL STATEMENTS, Continued

Leases (Cont'd.):

Capital leases (Cont'd.):

Minimum lease payments for the capital leases as of December 31, 1999 are as follows:

For the year ended <u>December 31,</u>	
2000	\$39 029
2001	29 273
2002	31 057
Remaining years	<u> -</u>
 Total minimum lease payments	 99 359
 Less estimated executory cost	 <u> -</u>
 Net minimum lease payments	 99 359
 Less interest	 <u> 8 959</u>
 Present value of minimum lease payments	 90 400
 Less current portion	 <u> 34 177</u>
 Capitalized lease obligations	 <u><u>\$56 223</u></u>

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

<u>Class of Property</u>	<u>December 31,</u> <u>1999</u>	<u>December 31,</u> <u>1998</u>
Building and improvements	\$119 354	\$119 354
Furniture, fixtures and equipment	119 155	119 155
Less: Accumulated depreciation	<u>(62 687)</u>	<u>(47 030)</u>
	<u><u>\$175 822</u></u>	<u><u>\$191 479</u></u>

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

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. As a partial payment, the Authority transferred a computer with a value of \$1,000 to the Township in 1998, leaving a balance payable to the Township of \$1,000. During 1999 the Authority agreed to pay \$16,000 to the Township for services provided by the Township's Secretary/Treasurer, leaving a balance payable to the Township of \$17,000.

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. 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 noteholder shall otherwise agree in writing.

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, 1999 and 1998:

Amount of Original Issue	\$5 235 000
Range of Final Maturity Dates	1998 - 2024
Range of Interest Rates %	3.60% - 6.00%
Balance December 31, 1997	\$5 000 000
Issued 1999 and 1998	\$ -
Retired 1998	\$85 000
Refunded in 1998	\$4 315 000
Retired 1999	\$90 000
Balance December 31, 1999	\$510 000

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 (the "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.

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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 periods ended December 31, 1999 and 1998:

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, 1997	-
Issued 1998	\$4 815 000
Retired 1998	-
Retired 1999	\$5 000
Balance December 31, 1999	\$4 810 000

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

NOTES TO FINANCIAL STATEMENTS, Continued

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

is collateralized primarily by the General Washington facilities. The following is a summary of changes in this long-term debt for the periods ended December 31, 1999 and 1998:

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, 1997	\$1 265 000
Retired in 1998	\$25 000
Retired in 1999	\$30 000
Balance December 31, 1999	\$1 210 000

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>227 032</u>	December 1, 2004
	<u>\$776 106</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 \$312,061 and \$377,910 for the periods ended December 31, 1999 and 1998, respectively.

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 December 31,</u>	
2000	\$448 512
2001	441 663
2002	533 749
2003	817 353
2004	963 391
2005 - 2024	<u>8 709 444</u>
Total	11 914 112
Less interest	<u>4 608 006</u>
Outstanding principal	<u>\$7 306 106</u>

Deposits with Financial Institutions and Investments:

The Authority's deposits with financial institutions and investments, which are carried at cost at December 31, 1999 and 1998, consist of the following:

	<u>1999</u>		<u>1998</u>	
	<u>Carrying Amount</u>	<u>Bank Balances Cost</u>	<u>Carrying Amount</u>	<u>Bank Balances Cost</u>
Deposit with financial institutions:				
First Union Bank	\$2 523	\$26 072	\$979	\$2 278
Commerce Bank	39 325	39 023	27 409	21 915
Investments:				
Pennsylvania Local Government Investment Trust (P.L.G.I.T.)	<u>184 516</u>	<u>184 516</u>	<u>136 048</u>	<u>136 048</u>
	<u>\$226 364</u>	<u>\$249 611</u>	<u>\$164 436</u>	<u>\$160 241</u>

The following is a schedule of the Authority's deposits with financial institutions (at bank balances) and investments (at cost) at December 31, 1999 and 1998 categorized by risk:

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION

NOTES TO FINANCIAL STATEMENTS, Continued

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

	<u>Category</u>			<u>December 31, 1998</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Bank</u>	<u>Market</u>
				<u>Balances/</u>	<u>Values</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Cost</u>	
Deposit with financial institutions:					
Cash in bank:					
First Union Bank	\$2 278	\$ -	\$ -	\$2 278	\$2 278
Commerce Bank	21 915	-	-	21 915	21 915
Investments:					
Cash equivalents:					
P.L.G.I.T.	<u>N/A</u>	<u>N/A</u>	<u>136 048</u>	<u>136 048</u>	<u>136 048</u>
Total	<u>\$24 193</u>	<u>\$ -</u>	<u>\$136 048</u>	<u>\$160 241</u>	<u>\$160 241</u>

	<u>Category</u>			<u>December 31, 1999</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Bank</u>	<u>Market</u>
				<u>Balances/</u>	<u>Values</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Cost</u>	
Deposit with financial institutions:					
Cash in bank:					
First Union Bank	\$26 072	\$ -	\$ -	\$26 072	\$26 072
Commerce Bank	39 023	-	-	39 023	39 023
Investments:					
Cash equivalents:					
P.L.G.I.T.	<u>N/A</u>	<u>N/A</u>	<u>184 516</u>	<u>184 516</u>	<u>184 516</u>
Total	<u>\$65 095</u>	<u>\$ -</u>	<u>\$184 516</u>	<u>\$249 611</u>	<u>\$249 611</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.

DRAFT

NOTES TO FINANCIAL STATEMENTS, Continued

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

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, 1999:

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 \$290,569. There is approximately \$30,000 of proposed change order cost for the project. However, none of these costs have been approved by the Authority Board.

Safety Netting: As of December 31, 1999, the Authority has signed a contract to install safety netting along selected areas of the golf course. The project is scheduled for completion by March 31, 2000. The estimated cost of the project is \$52,270.

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;

NOTES TO FINANCIAL STATEMENTS, Continued

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

\$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 1999 and 1998 were \$142,000 and \$126,000, respectively.

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.

NOTES TO FINANCIAL STATEMENTS. Continued

Subsequent Events:

The Authority plans to obtain additional financing from Lower Providence Township on an as needed basis through at least December 31, 2000 to cover deficit cash flow requirements 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.

Pursuant to the Memorandum of Understanding dated February 3, 2000, by and among Lower Providence Township Municipal Authority ("Authority"), Lower Providence Township ("Township"), and Entersport Capital Advisors, Inc. ("EnterSport"), the Authority has agreed to lease, on January 1, 2001, all of its property to a nonprofit corporation to be formed pursuant to Section 501(c)(3) of the Internal Revenue Code. It is contemplated that substantially all of the Authority's existing facilities will be demolished and replaced with new facilities by this nonprofit corporation. Financing of the Project shall be provided from the issuance of approximately \$7,000,000 in bonds by the nonprofit corporation and by approximately \$1,000,000 of capital outlay by EnterSport. The facilities lease will limit the use of the property to a recreation facility in a manner consistent with the IRS determination letter to be obtained by the nonprofit corporation. Also, EnterSport must obtain written approval from Montgomery County that the Project does not violate any provision of the Open Space funding for the Club or any restrictions imposed upon the Authority, Township or the real property of the Club or portion thereof. The nonprofit corporation

NOTES TO FINANCIAL STATEMENTS, (Continued)

Subsequent Events (Cont'd.):

will enter into a Management Agreement with EnterSport for the management and operation of the new recreation facility. The Board of Directors of the nonprofit corporation shall be appointed by the Authority (2), the Township (2), and by EnterSport (1). In the event that any of the conditions specified in the Memorandum of Understanding are not achieved within the time period specified therein, either the Authority or the Township may unilaterally terminate the Memorandum of Understanding at any time thereafter by giving written notice to EnterSport.

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.

March 6, 2000
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, 1999 and 1998 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 26, 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.

Certified Public Accountants

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES
For the Year Ended December 31, 1999
(See Independent Auditor's Report on Supplementary Information)

	<u>Golf</u>	<u>Ice Skating</u>	<u>Catering</u>	<u>Pool</u>	<u>General & Administrative</u>	<u>General Total</u>
Operating revenue	\$743,032	\$130,992	\$655,069	\$73,323	\$1,960	\$1,604,376
Operating expenses:						
Purchases	43,092	-	199,902	-	-	242,994
Labor cost	255,069	38,115	233,214	40,023	152,092	718,513
Management fees	-	-	-	-	142,000	142,000
Sanitation expense	-	-	-	-	14,621	14,621
Property and equipment maintenance	36,306	7,131	9,967	44,650	23,281	121,335
Equipment rental	34,645	-	6,819	-	16,976	58,440
Gas and oil	6,195	-	-	-	-	6,195
Utilities	13,956	28,732	-	-	79,869	122,557
Other operating expenses	11,916	-	19,604	(1,660)	26,392	56,252
Chemicals, fertilizer & seeds	29,237	-	-	-	864	30,101
Promotion & advertisement	11,901	1,700	19,086	-	13,251	45,938
Supplies	15,241	1,139	25,924	2,856	18,345	63,505
Uniforms	4,391	-	2,166	-	873	7,430
Telephone	-	-	-	-	14,619	14,619
Fee	8,340	3,759	2,290	-	2,405	16,794
Professional fees	-	-	-	-	29,692	29,692
Insurance expense	-	-	-	-	33,590	33,590
Bad dept expense	-	-	-	-	31,042	31,042
Total expenses	<u>470,289</u>	<u>80,576</u>	<u>518,972</u>	<u>85,869</u>	<u>599,912</u>	<u>1,755,618</u>
Net operating income (loss) before depreciation	272,743	50,416	136,097	(12,546)	(597,952)	(151,242)
Depreciation	<u>(59,117)</u>	<u>(35,002)</u>	<u>(57,547)</u>	<u>(8,953)</u>	<u>(9,073)</u>	<u>(169,692)</u>
Net operating income (loss)	<u>\$213,626</u>	<u>\$15,414</u>	<u>\$78,550</u>	<u>(\$21,499)</u>	<u>(\$607,025)</u>	<u>(\$320,934)</u>

DRAFT
FOR DISCUSSION PURPOSES ONLY
SUBJECT TO REVISION



