

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania

FINANCIAL STATEMENTS

For the Years Ended December 31, 2000 and 1999

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
Montgomery County, Pennsylvania
December 31, 2000 and 1999

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

SOLICITOR

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

CONSULTING ENGINEERS

Chambers Associates, Inc.
Center Square, Pennsylvania

KIMMEL, LORAH + ASSOCIATES LLP
Certified Public Accountants

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March 1, 2001
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, 2000 and 1999, 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, 2000 and 1999, and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999 in conformity with generally accepted accounting principles.

Kimmel, Lorah + Associates LLP

Certified Public Accountants

AUTHORITY

LIABILITIES

<u>00</u>	<u>1999</u>		<u>2000</u>	<u>1999</u>
		Current liabilities:		
		Demand notes payable, Lower Providence Twp.	\$1 801 807	\$1 096 295
-	\$975	Current portion of long-term debt	155 000	155 000
120	41 848	Current portion of capital lease obligation	25 509	34 177
-	<u>184 516</u>	Accounts payable - trade	58 631	86 865
		Accrued expenses	5 000	45 953
120	227 339	Accrued interest payable	115 280	80 473
		Payable to Lower Providence Township	17 000	17 000
		Deferred revenue - customer deposits	-	18 974
		Deferred revenue - merchandise certificate	<u>1 103</u>	<u>3 036</u>
299	-			
750	<u>23 790</u>	Total current liabilities	2 179 330	1 537 773
169	251 129	Long-term debt, less current portion	6 996 106	7 151 106
		Deferred amount on refunded 1994 series		
		debt, net of amortization	(440 437)	(468 485)
		Capital lease obligations, less		
		current portion	<u>29 703</u>	<u>56 223</u>
		Total liabilities	<u>8 764 702</u>	<u>8 276 617</u>
		Commitments and contingencies	-	-
		Fund Equity:		
193	6 200 606	Contributed capital:		
		Capital Grants:		
		Montgomery County Open Space		
		Acquisition Grant	1 184 644	1 184 644
176	248 055	Commonwealth of Pennsylvania Legislative		
		Initiative Program Grant	20 000	20 000
-	<u>2 149</u>	Retained earnings (deficit)	<u>(5 633 908)</u>	<u>(2 779 322)</u>
		Total fund equity (deficit)	<u>(4 429 264)</u>	<u>(1 574 678)</u>
138	<u>\$6 701 939</u>	Total liabilities and fund equity	<u>\$4 335 438</u>	<u>\$6 701 939</u>

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues	\$1 072 041	\$1 604 376
Operating expenses	<u>1 512 472</u>	<u>1 925 310</u>
Net operating income (loss)	_ (440 431)	_ (320 934)
Nonoperating revenues (expenses):		
Interest income	4 698	6 032
Interest expense	(333 226)	(319 204)
Amortization of debt issuance costs	(18 779)	(20 136)
Amortization of deferred amount on refunded 1994 series debt	(28 048)	(29 145)
Loss on sale of equipment	(230 552)	-
Loss on impairment/abandonment of fixed assets	<u>(1 808 248)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(2 414 155)</u>	<u>(362 453)</u>
Net income (loss)	(2 854 586)	(683 387)
Retained earnings (deficit) - beginning	<u>(2 779 322)</u>	<u>(2 095 935)</u>
Retained earnings (deficit) - ending	<u>(\$5 633 908)</u>	<u>(\$2 779 322)</u>

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2000 and 1999

Increase (Decrease) in Cash and Cash Equivalents

	<u>2000</u>	<u>1999</u>
Cash flows from (used for) operating activities:		
Net operating income (loss)	(\$440,431)	(\$320,934)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	138,216	169,692
Proceeds from sale of fixed assets	4,167	-
Changes in assets - (increases) decreases:		
Accounts receivable, trade	-	24,207
Receivable, other	(8,299)	-
Receivable - American Golf Corporation	-	11,188
Inventory	23,040	10,634
Prepaid expenses	-	8,482
Security deposits	2,149	-
Changes in liabilities - increases (decreases):		
Accounts payable - trade	(28,234)	22,938
Accrued expenses	(40,953)	15,500
Deferred revenues	(20,907)	(6,723)
Payable to Lower Providence Township	-	<u>16,000</u>
Total adjustments	<u>69,179</u>	<u>271,918</u>
Net cash provided by (used for) operating activities	<u>(371,252)</u>	<u>(49,016)</u>
Cash flows from noncapital financing activities:		
Proceeds of demand note - Lower Providence Township	<u>257,000</u>	<u>250,000</u>
Net cash provided by (used for) noncapital financing activities	<u>257,000</u>	<u>250,000</u>

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS, (Continued)
For the Years Ended December 31, 2000 and 1999

Increase (Decrease) in Cash and Cash Equivalents

	2000	1999
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(52 270)	(104 314)
Principal paid on capital lease obligations	(35 188)	(32 969)
Interest paid on capital lease obligations	(4 907)	(7 143)
Net cash provided by (used for) capital and related financing activities	(92 365)	(144 426)
Cash flows from investing activities:		
Interest received on investments	4 698	5 370
Net cash provided by investing activities	4 698	5 370
Net increase (decrease) in cash and cash equivalents	(201 919)	61 928
Cash and cash equivalents at beginning of period	227 339	165 411
Cash and cash equivalents at end of period	\$25 420	\$227 339

Noncash investing, capital, and financing activities:

- 1) During 1999 promissory notes due on demand were executed for \$326 092 of interest expense on long term debt.
- 2) On May 1, 2000 a promissory note due on demand was executed for \$155,000 of principal payment and \$275,023 of interest expense on long term debt.
- 3) Equipment, not fully depreciated, was disposed of during 2000, resulting in a loss of \$230,552.
- 4) As of December 31, 2000 the Authority recognized a loss on impairment/abandonment of \$1,808,248 for its main building, electrical vault contract and zamboni machine.

See Accompanying Notes

LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2000 and 1999

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. All operations were discontinued by December 31, 2000. The "Memorandum of Understanding" note and the "Subsequent Events" note describe the intended future operations of the Authority.

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 shown on the balance sheet 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 \$1,400 for 2000 and \$31,042 for 1999.

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 less any loss recognized on impairment/abandonment of fixed assets.

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.

When properties are retired or otherwise disposed of; the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in income. Maintenance, repairs and minor replacements are expensed in the year 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 \$54,412 and \$35,633 as of December 31, 2000 and 1999, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

Property, Plant and Equipment: Property, plant and equipment at December 31, 2000 and 1999

are as follows:

	<u>2000</u>	<u>1999</u>
Land	\$3 185 540	\$3 185 540
Land improvements	530 578	490 611
Building and improvements	320 707	2 126 345
Furniture, fixtures and equipment	<u>353 676</u>	<u>786 584</u>
	4 390 501	6 589 080
Less: Accumulated depreciation	<u>(318 808)</u>	<u>(679 043)</u>
	4 071 693	5 910 037
Construction in progress	-	290 569
Net property, plant and equipment	<u>\$4 071 693</u>	<u>\$6 200 606</u>

The following assets, which are included in the above totals, were taken out of service by

December 31, 2000:

	<u>2000</u>	<u>1999</u>
Electrical, rewiring vault room, salvageable equipment	\$28 506	\$290 569
Zamboni machine	5 958	14 630
Other furniture, fixtures & equipment	<u>95 392</u>	<u>95 392</u>
	129 856	400 591
Less: Accumulated depreciation	<u>(60 088)</u>	<u>(51 396)</u>
Net carrying amount	<u>\$69 768</u>	<u>\$349 195</u>

Loss on Impairment/Abandonment of Fixed Assets:

The following assets were impaired or abandoned as of December 31, 2000:

The General Washington Recreation Center's Main Building - Pursuant to the Memorandum of Understanding, by and among Lower Providence Township Municipal Authority ("Authority"), Lower Providence Township and Community Sports Partners, the facility's main building is to be demolished and replaced with a new structure. During December, 2000 all removable components of the old building were sold during a full liquidation sale. Upon completion of the sale the building was completely boarded up and is currently awaiting its demolition.

NOTES TO FINANCIAL STATEMENTS, Continued

Loss on Impairment/Abandonment of Fixed Assets (Cont'd):

Asset cost		\$1 817 941
Accumulated depreciation		<u>(280 428)</u>
Unadjusted asset carrying amount		1 537 513
Less estimated selling price/carrying amount		<u> -</u>
 Loss on abandonment of fixed assets		 <u><u>\$1 537 513</u></u>

Electrical rewiring vault room - In November, 2000 the Authority, with the assistance of Community Sports Partner's engineer, removed from the vault room anything they felt was salvageable. The engineer at that time estimated the value of the salvaged assets to be approximately \$35,000, less the cost to detach and reattach the equipment of \$10,000.

Asset cost		\$290 569
Accumulated depreciation		<u>(3 506)</u>
Unadjusted asset carrying amount		287 063
Less estimated selling price	\$35 000	
Cost to detach and reattach	<u>(10 000)</u>	
Carrying amount		<u>25 000</u>
 Loss on impairment of fixed assets		 <u><u>\$262 063</u></u>

Zamboni Machine - In December the zamboni machine was appraised with a fair market value of \$1,000. The appraisal was done through a zamboni dealer and was rendered based on price comparisons of similar equipment.

Asset cost		\$14 630
Accumulated depreciation		<u>(4 958)</u>
Unadjusted asset carrying amount		9 672
Less estimated selling price	\$1 000	
Cost to sell	<u>(-)</u>	
Carrying amount		<u>1 000</u>
 Loss on impairment of fixed assets		 <u><u>\$8 672</u></u>

Total loss on impairment/abandonment of fixed assets, which has been reflected on the income statement for the year ended December 31, 2000, is \$1,808,248.

NOTES TO FINANCIAL STATEMENTS, Continued

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 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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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. The lease was terminated December, 2000. The lease rental expensed was \$540 and \$719 for 2000 and 1999, 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 was terminated December, 2000. The lease rental expensed was \$900 and \$1,199 for 2000 and 1999, respectively.
- (3) Ice machines commitment under a 60 month noncancellable lease, dated August 5, 1998, payable \$460 per month with 34 payments remaining. The lease rental expensed was \$4,600 and \$5,520 for 2000 and 1999, respectively. Although the lease was terminated October 31, 2000, the lease and 34 payments remaining. The lessor is currently seeking restitution. It is estimated that the cost to settle the lease to the Authority will be \$5,000, which has been accrued as of December 31, 2000.

NOTES TO FINANCIAL STATEMENTS, Continued

Leases (Cont'd.):

Capital leases:

- (1) Pro Shop building commitment under a 84 month noncancellable lease, dated March 20, 1996, payable \$1,746 per month with 29 payments remaining.
- (2) Fairway/utility mower commitment under a 60 month noncancellable lease, dated March 28, 1996, payable \$770 per month with 1 payment remaining.
- (3) Utility truck commitment under a 60 month noncancellable lease, dated April 24, 1996, payable \$257 per month with 4 payments remaining.
- (4) Lawn mowers/12' Rotary commitment of a 60 month noncancellable lease, dated April 8, 1997, payable at \$458 per month with 15 payments remaining.

Minimum lease payments for the capital leases as of December 31, 2000 are as follows:

For the year ended		
<u>December 31,</u>		
2001		\$28 246
2002		22 327
2003		8 730
Remaining years		<u> -</u>
Total minimum lease payments		59 303
Less estimated executory cost		<u> -</u>
Net minimum lease payments		59 303
Less interest		<u> 4 091</u>
Present value of minimum lease payments		55 212
Less current portion		<u> 25 509</u>
Capitalized lease obligations		<u><u>\$29 703</u></u>

NOTES TO FINANCIAL STATEMENTS, Continued

Leases (Cont'd.):

Capital leases (Cont'd.):

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>2000</u>	<u>December 31,</u> <u>1999</u>
Building and improvements	\$119 354	\$119 354
Furniture, fixtures and equipment	119 155	119 155
Less: Accumulated depreciation	<u>(74 486)</u>	<u>(62 687)</u>
	<u>\$164 023</u>	<u>\$175 822</u>

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. During 2000 the Authority signed \$705,512 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.

NOTES TO FINANCIAL STATEMENTS, Continued

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, 2000 and 1999:

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
Retired 1998	\$85 000
Refunded in 1998	\$4 315 000
Retired 1999	\$90 000
Issued 2000 and 1999	\$ -
Retired 2000	\$95 000
Balance December 31, 2000	\$415 000

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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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, 2000 and 1999:

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, 1998	\$4 815 000
Issued 1999 and 2000	\$ -
Retired 1999	\$5 000
Retired 2000	\$30 000
Balance December 31, 2000	\$4 780 000

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 Washington facilities. The following is a summary of changes in this long-term debt for the periods ended December 31, 2000 and 1999:

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, 1998	\$1 240 000
Retired in 1999	\$30 000
Retired in 2000	\$30 000
Balance December 31, 2000	\$1 180 000

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 \$328,320 and \$312,061 for the periods ended December 31, 2000 and 1999, 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:

<u>Year Ending December 31,</u>	
2001	\$441 663
2002	533 749
2003	817 353
2004	963 391
2005	444 368
2006 - 2024	<u>8 265 076</u>
Total	11 465 600
Less interest	<u>4 314 494</u>
Outstanding principal	<u>\$7 151 106</u>

NOTES TO FINANCIAL STATEMENTS, Continued

Deposits with Financial Institutions and Investments:

The Authority's deposits with financial institutions and investments, which are carried at cost at December 31, 2000 and 1999, consist of the following:

	2000		1999	
	Carrying Amount	Bank Balances Cost	Carrying Amount	Bank Balances Cost
Deposit with financial institutions:				
First Union Bank	\$ -	\$ -	\$ 2 523	\$ 26 072
Commerce Bank	25 420	41 971	39 325	39 023
Investments:				
Pennsylvania Local Government Investment Trust (P.L.G.I.T.)	-	-	<u>184 516</u>	<u>184 516</u>
	<u>\$25 420</u>	<u>\$41 971</u>	<u>\$226 364</u>	<u>\$249 611</u>

The following is a schedule of the Authority's deposits with financial institutions (at bank balances) and investments (at cost) at December 31, 2000 and 1999 categorized by risk:

	Category			December 31, 2000	
	1	2	3	Bank Balances/ Cost	Market Values
Deposit with financial institutions:					
Cash in bank:					
Commerce Bank	<u>\$41 971</u>	\$ -	\$ -	<u>\$41 971</u>	<u>\$41 971</u>
Total	<u>\$41 971</u>	\$ -	\$ -	<u>\$41 971</u>	<u>\$41 971</u>
	Category			December 31, 1999	
	1	2	3	Bank Balances/ Cost	Market Values
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>\$184 516</u>	<u>\$249 611</u>	<u>\$249 611</u>

NOTES TO FINANCIAL STATEMENTS, Continued

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

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.

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

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

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 2000 and 1999 were \$115,500 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. As previously indicated, the base management fee shall be increased only if the facility has generated gross revenue equal to ninety percent of the amount reflected in the approved annual plan for the preceding 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.

Effective November 30, 2000 the Authority and the American Golf Corporation have terminated the management agreement.

NOTES TO FINANCIAL STATEMENTS, Continued

Memorandum of Understanding:

Pursuant to the Memorandum of Understanding dated February 3, 2000, as amended July 31, 2000, by and among Lower Providence Township Municipal Authority ("Authority"), Lower Providence Township ("Township"), and Community Sports Partners, LLC ("Community"), 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 \$8,000,000 in bonds by the nonprofit corporation. 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, Community 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 will enter into a Management Agreement with Community 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 Community (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 Community.

As of the date of this report, the nonprofit corporation has not yet received a favorable determination letter from the Internal Revenue Service relative to its IRC Section 501(c)(3) status.

Subsequent Events:

The Authority plans to obtain additional financing from Lower Providence Township on an as needed basis through at least December 31, 2001 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 Interim Management Agreement effective the first day of January, 2001, by and between Lower Providence Township Municipal Authority ("LPTMA") and Community Sports Partners, LLC ("CSP"), LPTMA has agreed to employ CSP to operate the General Washington Country Club golf course and related recreational facilities (the "Facility"), as a public golf course. CSP shall have the exclusive right to work towards the fulfillment of the Project objectives set forth in the Memorandum of Understanding dated February 3, 2000, as amended July 31, 2000. CSP shall collect and deposit all revenues in an Operating Account to be held by a trustee approved by the LPTMA. All operating expenses of the Facility shall be paid out of the Operating Account. Any shortfall in available funds for payment of current obligations shall be paid by CSP, and neither LPTMA nor Lower Providence Township shall have any liability therefor. Any current obligations which are paid by CSP out of its own funds shall accrue and be carried forward as (unsecured) liabilities of the Facility, and shall be remitted to CSP if and at such time as there are funds available in the Operating Account to pay such amounts after payment of then current operating expenses and management fees. For its services hereunder, CSP shall not receive a management fee. This Agreement shall terminate on December 31, 2001. This Agreement may be terminated by either party after June 30, 2001, upon 45 days written notice.

NOTES TO FINANCIAL STATEMENTS, Continued

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.

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March 1, 2001
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, 2000 and 1999 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 28, 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

AUTHORITY

D EXPENSES

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 ry Information)

<u>Golf</u>	<u>Catering</u>	<u>Pool</u>	<u>General & Administrative</u>	<u>General Total</u>
<u>\$583,655</u>	<u>\$420,998</u>	<u>\$65,102</u>	<u>\$2,286</u>	<u>\$1,072,041</u>
30,139	127,132	-	-	157,271
249,722	167,134	27,981	155,868	600,705
-	-	-	115,500	115,500
-	-	-	12,444	12,444
19,110	5,808	33,421	22,832	81,171
32,548	13,384	-	8,813	54,745
6,229	-	-	-	6,229
9,557	-	-	77,418	86,975
18,636	17,191	-	10,036	45,863
30,145	-	-	963	31,108
4,520	12,635	-	4,668	21,823
7,693	20,055	3,972	8,254	39,974
5,109	2,544	-	320	7,973
-	-	-	12,754	12,754
3,530	(439)	-	160	3,251
-	-	-	56,065	56,065
-	-	-	39,005	39,005
-	-	-	1,400	1,400
<u>416,938</u>	<u>365,444</u>	<u>65,374</u>	<u>526,500</u>	<u>1,374,256</u>
166,717	55,554	(272)	(524,214)	(302,215)
<u>66,488</u>	<u>54,839</u>	<u>8,906</u>	<u>7,983</u>	<u>138,216</u>
<u>\$100,229</u>	<u>\$715</u>	<u>(\$9,178)</u>	<u>(\$532,197)</u>	<u>(\$440,431)</u>

