

**LOWER PROVIDENCE TOWNSHIP  
MUNICIPAL AUTHORITY**

**Montgomery County, Pennsylvania**

**FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2001**



**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY**  
**Montgomery County, Pennsylvania**  
**December 31, 2001**

**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
William Markley	Vice Chairman
Deborah L. McQuiston	Treasurer
Paul Belyus	Secretary
Jonathon Rinde	Member
Joseph Hassett	Member

**SOLICITOR**

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

**CONSULTING ENGINEERS**

Chambers Associates, Inc.  
Center Square, Pennsylvania

**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

www.klacpa.net

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

Kelly L. Moono, CPA  
Robert E. Hartzell, CPA  
Mary Ann Ricci, CPA  
Gail R. Rainone, CPA

February 9, 2002  
Norristown, 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, 2001, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lower Providence Township Municipal Authority as of December 31, 2001, and the results of its operations and its cash flows for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying general purpose financial statements have been prepared assuming that the Lower Providence Township Municipal Authority will continue as a going concern. As discussed in the Notes to the general purpose financial statements, the Lower Providence Township Municipal Authority does not currently have the ability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of operations, restructuring of debt, or similar actions. These conditions raise substantial doubt about its ability to continue as a going concern. The general purpose financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Kimmel, Lorah & Associates LLP*

Certified Public Accountants

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY  
BALANCE SHEET  
December 31, 2001**

**ASSETS**

Current assets:	
Cash and cash equivalents:	
Petty cash	\$676
Cash in bank	<u>2 509</u>
Total cash and cash equivalents	3 185
Inventory	<u>4 305</u>
Total current assets	7 490
Property, plant and equipment, net of accumulated depreciation (at cost)	3 995 483
Debt issuance cost, net of amortization	<u>211 615</u>
Total assets	<u><u>\$4 214 588</u></u>

**LIABILITIES AND FUND EQUITY**

Current liabilities:	
Demand notes payable, Lower Providence Twp.	\$2 268 470
Current portion of long-term debt	160 000
Current portion of capital lease obligation	25 492
Accounts payable - trade	116 196
Current portion of accrued interest payable	193 996
Payable to Lower Providence Township	17 000
Deferred revenue - customer deposits	2 160
Deferred revenue - gift certificates	<u>300</u>
Total current liabilities	2 783 614
Long-term debt, less current portion	6 852 531
Deferred amount on refunded 1994 series debt, net of amortization	(412 536)
Capital lease obligations, less current portion	8 596
Accrued interest payable, less current portion	<u>121 427</u>
Total liabilities	<u>9,353,632</u>
Commitments and contingencies	-
Fund Equity:	
Contributed capital:	
Capital Grants:	
Montgomery County Open Space Acquisition Grant	1 184 644
Commonwealth of Pennsylvania Legislative Initiative Program Grant	20 000
Retained earnings (deficit)	<u>(6 343 688)</u>
Total fund equity (deficit)	<u>(5 139 044)</u>
Total liabilities and fund equity	<u><u>\$4 214 588</u></u>

See Accompanying Notes

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**For the Year Ended December 31, 2001**

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Operating revenues	\$481 190
Operating expenses	<u>595 642</u>
Net operating income (loss)	_ (114 452)
Nonoperating revenues (expenses):	
Interest expense	(393 995)
Amortization of debt issuance costs	(17 661)
Amortization of deferred amount on refunded 1994 series debt	(27 901)
Development costs on abandoned facility expansion project	(28 076)
Loss on impairment/abandonment of fixed assets	<u>(3 284)</u>
Total nonoperating revenues (expenses)	<u>(470 917)</u>
Net income (loss)	(585 369)
Retained earnings (deficit) - beginning, as restated	<u>(5 758 319)</u>
Retained earnings (deficit) - ending	<u>(\$6 343 688)</u>

See Accompanying Notes

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2001**

**Increase (Decrease) in cash and Cash Equivalents**

Cash flows from (used for) operating activities:	
Net operating income (loss)	( <u>\$114,452</u> )
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:	
Depreciation	72,926
Changes in assets - (increases) decreases:	
Accounts receivable - other	8,299
Inventory	(3,555)
Changes in liabilities - increases (decreases):	
Accounts payable - trade	45,442
Accrued expenses	(5,000)
Deferred revenues	<u>1,357</u>
Total adjustments	<u>119,469</u>
Net cash provided by (used for) operating activities	<u>5,017</u>
Cash flows from noncapital financing activities:	
Proceeds of demand note - Lower Providence Township	<u>25,000</u>
Net cash provided by (used for) noncapital financing activities	<u>25,000</u>

See Accompanying Notes

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY**  
**STATEMENT OF CASH FLOWS, (Continued)**  
**For the Year Ended December 31, 2001**

**Increase (Decrease) in Cash and Cash Equivalents**

Cash flows from capital and related financing activities:	
Principal paid on capital lease obligations	(21 124)
Interest paid on capital lease obligations	(3 052)
Development costs on abandoned facility expansion project	<u>(28 076)</u>
Net cash provided by (used for) capital and related financing activities	<u>(52 252)</u>
Cash flows from investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(22 235)
Cash and cash equivalents at beginning of period	<u>25 420</u>
Cash and cash equivalents at end of period	<u>\$3 185</u>

**Noncash investing, capital, and financing activities:**

- 1) On December 1, 2001 a promissory note due December 1, 2008 was executed for \$75,000 of principal and \$16,425 of interest expense on a promissory note dated November 29, 1995, due November 29, 2002.
- 2) On May 1, 2001 a promissory note due on demand was executed for \$155,000 of principal payment and \$286,663 of interest expense on long term debt.
- 3) As of December 31, 2001 the Authority recognized a loss on impairment/ abandonment of \$3,284 for scrapped pool and maintenance equipment.

See Accompanying Notes

**LOWER PROVIDENCE TOWNSHIP MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2001**

**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. 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, rentals and merchandise sales. All former ice skating, swimming and catering operations were discontinued by December 31, 2000. The "Subsequent Events" note describes the intended future operations of the Authority owned facilities.

**Basis of Presentation and Accounting:** The financial statements have been prepared assuming that the Authority will continue as a going concern, which issue is discussed in the "Going Concern" note. 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, if any, 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 \$1,350 for the year 2001.

**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 \$72,073 as of December 31, 2001.

#### Prior Period Adjustment:

During the year ended December 31, 2001, two changes were made to the Authority's retained earnings to properly account for the following previously unrecorded liabilities.

Retained earnings (deficit), as previously reported, December 31, 2000	(\$5 633 908)
Accrued interest payable to Township	(112 288)
Accounts payable for ammonia leaks	<u>(12 123)</u>
Retained earnings (deficit), restated, December 31, 2000	<u>(\$5,758 319)</u>

## NOTES TO FINANCIAL STATEMENTS, Continued

### Property, Plant and Equipment:

Property, plant and equipment at December 31, 2001 are as follows:

Land	\$3 185 540
Land improvements	530 578
Building and improvements	320 707
Furniture, fixtures and equipment	<u>346 477</u>
	4 383 302
Less: Accumulated depreciation	<u>( 387 819)</u>
	3 995 483
Construction in progress	<u>-</u>
Net property, plant and equipment	<u>\$3 995 483</u>

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

December 31, 2000:

Electrical, rewiring vault room, salvageable equipment	\$28 506
Zamboni machine	5 958
Other furniture, fixtures & equipment	<u>88 191</u>
	122 655
Less: Accumulated depreciation	<u>( 65 093)</u>
Net carrying amount	<u>\$57 562</u>

### Loss on Impairment/Abandonment of Fixed Assets:

During the year ended December 31, 2001, certain pool and maintenance equipment was scrapped, as follows.

Asset cost	\$7 200
Accumulated depreciation	<u>( 3 916)</u>
Loss on impairment/abandonment of fixed assets	<u>\$3 284</u>

## 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 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.

**NOTES TO FINANCIAL STATEMENTS, Continued**

**Leases:**

**Operating leases:**

- (1) Golf carts are leased on a monthly basis, at the rate of 35% of each cart rental charged to the public, up to a maximum of \$125.00 per cart, per month. Total rental expense for the year 2001 was \$18,865.
- (2) Ice machines commitment under a 60 month noncancellable lease, dated August 5, 1998, payable \$460 per month. The lease was terminated October 31, 2000, with 34 payments remaining. The Authority paid \$5,000 (lease rental expense) to the lessor during the year ended December 31, 2001 to settle the remaining lease obligation.

**Capital leases:**

- (1) Pro Shop building commitment under a 84 month noncancellable lease, dated March 20, 1996, payable \$1,746 per month with 19 payments remaining.
- (2) Lawn mowers/12' Rotary commitment of a 60 month noncancellable lease, dated April 8, 1997, payable at \$458 per month with 6 payments remaining.

Minimum lease payments for the capital leases as of December 31, 2001 are as follows:

For the year ended		
<u>December 31,</u>		
2002		\$27 193
2003		8 730
Remaining years		<u>          -</u>
Total minimum lease payments		35 923
Less estimated executory cost		<u>          -</u>
Net minimum lease payments		35 923
Less interest		<u>  1 835</u>
Present value of minimum lease payments		34 088
Less current portion		<u>25 492</u>
Capitalized lease obligations		<u><u>\$8 596</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, as of December 31, 2001:

**Class of Property**

Building and improvements	\$119 354
Furniture, fixtures and equipment	119 155
Less: Accumulated depreciation	<u>(89 022)</u>
	<u>\$149 487</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. . During 2001 the Authority signed \$466,663 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 note holder shall otherwise agree in writing. Interest expense on all of the above demand notes was \$76,615 for the year ended December 31, 2001.

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 year ended December 31, 2001:

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
Retired 2000	\$95 000
Balance December 31, 2000	\$415 000
Retired 2001	\$95 000
Balance December 31, 2001	\$320 000

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 costs) were paid to the

NOTES TO FINANCIAL STATEMENTS, Continued

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

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 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

**NOTES TO FINANCIAL STATEMENTS, Continued**

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

is a summary of changes in this long-term debt for the year ended December 31, 2001:

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
Retired 1999	\$5 000
Retired 2000	\$30 000
Balance December 31, 2000	\$4 780 000
Retired 2001	\$30 000
Balance December 31, 2001	\$4 750 000

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 year ended December 31, 2001:

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
Retired in 2001	\$30 000
Balance December 31, 2001	\$1 150 000

**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>
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	227 032	December 1, 2004
December 1, 2001	<u>91 425</u>	December 1, 2008
	<u>\$792 531</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 \$314,328 for the year ended December 31, 2001.

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:

**Year Ending December 31,**

2002	\$439 586
2003	817 354
2004	963 391
2005	444 369
2006	451 545
2007 – 2024	<u>7 928 314</u>
Total	11 044 559
Less interest	<u>4 032 028</u>
Outstanding principal	<u>\$7 012 531</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, 2001, consist of the following:

	<u>Carrying Amount</u>	<u>Bank Balances/ Cost</u>
Deposits with financial institutions:		
Commerce Bank	<u>\$2 509</u>	<u>\$25 657</u>

The following is a schedule of the Authority's deposits with financial institutions (at bank balances) at December 31, 2001 categorized by risk:

	<u>December 31, 2001</u>				
	<u>Category</u>			<u>Bank Balances/ Cost</u>	<u>Market Values</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Deposit with financial institutions:					
Cash in bank:					
Commerce Bank	<u>\$25 657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$25 657</u>	<u>\$25 657</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.

## 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 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 was contemplated that substantially all of the Authority's existing facilities would be demolished and replaced with new facilities by this nonprofit corporation. Financing of the Project was intended to be provided from the issuance of approximately \$8,000,000 in bonds by the nonprofit corporation.

The facilities lease was to 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 was required to 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 intended to 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 was to 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.

Due to delays in achieving the objectives set forth in the Memorandum of Understanding, the Authority and Community Sports Partners, LLC entered into the Interim Management Agreement effective January 1, 2001 (see the Interim Management Agreement note).

## NOTES TO FINANCIAL STATEMENTS, Continued

### Interim Management Agreement:

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 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. In the event that revenues of the Facility are not sufficient either to reimburse expenses incurred or funds advanced by CSP hereunder, CSP shall have no lien against the assets of the Facility, LPTMA or the Township. CSP, without the express written consent of LPTMA, shall have no apparent or implied authority to pledge the credit of LPTMA; bind LPTMA under any contract, note, mortgage or other agreement; release or discharge any debt due LPTMA; or sell, mortgage, transfer or otherwise dispose of any asset of LPTMA. The duties and obligations of CSP under this Agreement do not encompass the making of capital improvements to the Facility, and LPTMA shall have no right under this Agreement to require CSP to make any such capital improvements, nor may CSP make any capital improvements to the Facility without the prior approval of LPTMA. The parties understand that during the term of this Agreement, CSP and LPTMA will continue discussions regarding the development of such capital improvements to the Facility as may be necessary or appropriate to implement the Project as contemplated in the Memorandum of Understanding and Related Agreements. However, such discussions

## NOTES TO FINANCIAL STATEMENTS, Continued

### Interim Management Agreement (Cont'd.):

and any agreed upon arrangements regarding the development of any such capital improvements are outside the scope of this Agreement and shall be memorialized in a separate document. Neither LPTMA, General Washington Recreation Corporation ("GWRC"), nor Lower Providence Township ("Township") shall have any obligation to reimburse CSP for any payments made by or on behalf of CSP for any capital improvement, regardless of the status of financing for the Project and the relationship between CSP and LPTMA, GWRC or Township. CSP shall have no lien against the assets of the Facility, LPTMA or the Township. 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 (see the Subsequent Events note).

### Going Concern Comment:

These general purpose financial statements have been prepared assuming that Lower Providence Township Municipal Authority will continue as a going concern. However, Lower Providence Township Municipal Authority does not currently have the ability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of operations, restructuring of debt, or similar actions. These conditions raise substantial doubt about its ability to continue as a going concern. The general purpose financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of the date of this report, General Washington Recreation Corporation ("GWRC") has received a favorable determination letter from the Internal Revenue Service relative to its IRC Section 501(c)(3) status. However, GWRC was not able to obtain a buyer for its above mentioned bonds, due to a significant decline in interest rates. Therefore, the facility expansion project has been abandoned. The Authority has not leased its property to GWRC. The Authority's previously existing facilities, with the exception of its golf course facilities, have been demolished. The Authority recorded a loss on the abandoned (now demolished) facilities during its year ended December 31, 2000. The Authority continued its golf course

## NOTES TO FINANCIAL STATEMENTS, Continued

### Going Concern Comment (Cont'd.):

operations during the year 2001 pursuant to the above mentioned Interim Management Agreement. However, golf course operations were somewhat limited at certain times during the year 2001 because of the demolition of its other facilities taking place. Based on past experience, future golf course operations are not anticipated to generate sufficient revenues to provide the ability for the Authority to meet its obligations as they become due and the Authority has no other source of revenues. The Subsequent Events note discloses additional matters which relate to the Authority's ability to continue as a going concern.

### 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. The nature of the Authority's liability in this matter is unknown at this time.

Certain payments were made from the operational funds of the General Washington Country Club operating account, for building demolition and development costs, which may not have been authorized or in accordance with the January 1, 2001 Interim Management Agreement. Also, certain funds were deposited into that operating account by Community Sports Partners, LLC. Such actions may give rise to claims by the Authority and/or by Community Sports Partners, LLC.

### Subsequent Events / Contingencies:

Pursuant to Lower Providence Township Resolution #2002-10, adopted January 31, 2002, effective Monday, January 28, 2002, the relationship between Community Sports Partners, LLP and General Washington Country Club was terminated by Lower Providence Township and the operation of the golf course was assumed by the Board of Supervisors of Lower Providence Township as of that date.

**NOTES TO FINANCIAL STATEMENTS, Continued**

**Subsequent Events / Contingencies (Cont'd.):**

On February 7, 2002, Lower Providence Township approved its Resolution No. 02-12, in which the Township expressed its desire to undertake and assume the operations of the Country Club, and being willing to assume all of the obligations of the Authority, thereby requested that the Authority execute the appropriate instruments determined to be necessary to convey to the Township the Country Club and its operating licenses.

Subsequent to the above events, all of the Authority Board Members resigned and the Authority's Solicitor resigned.



