

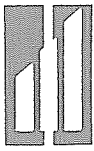
YORK CITY RECREATION CORPORATION

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION**

Year Ended December 31, 2003

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Independent Auditors' Report

To the Board of Directors
York City Recreation Corporation
York, Pennsylvania

We have audited the accompanying statement of financial position of the York City Recreation Corporation (a nonprofit corporation) as of December 31, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the York City Recreation Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We did not observe the taking of physical inventories at December 31, 2003 and December 31, 2002, since those dates were prior to the time we were initially engaged as auditors for the Corporation. We were unable to satisfy ourselves about inventory quantities by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 2002 and 2003, the financial statements referred to above present fairly, in all material respects, the financial position of the York City Recreation Corporation as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Maillie, Falconiero & Company, LLP

June 3, 2005

YORK CITY RECREATION CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2003

ASSETS

CURRENT ASSETS

Cash	\$	47,592
Accounts receivable		4,174
Prepaid expenses		<u>5,059</u>

TOTAL CURRENT ASSETS 56,825

PROPERTY AND EQUIPMENT, net of accumulated
depreciation of \$2,026

30,243

TOTAL ASSETS \$ 87,068

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	46,624
Accrued payroll and payroll taxes		3,694
Deposits		<u>2,678</u>

TOTAL CURRENT LIABILITIES 52,996

NET ASSETS

Unrestricted 34,072

TOTAL LIABILITIES AND NET ASSETS \$ 87,068

See accompanying notes.

YORK CITY RECREATION CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

REVENUES

Surface schedule	\$ 427,792
Public skate	90,289
Hockey and tournament sales	174,704
Pro shop	204,312
Concessions	104,290
Arcade and vending	13,547
Camps and clinics	49,661
Parties and room rental	19,047
Contributions	2,315
Bingo	66,011
Chiller	7,711
Miscellaneous	19,812
Discounts, coupons and refunds	<u>(47,428)</u>

TOTAL REVENUES 1,132,063

COST OF GOODS SOLD 1,132,537

GENERAL AND ADMINISTRATIVE EXPENSES 126,633

DECREASE IN NET ASSETS BEFORE
OTHER INCOME (EXPENSE) (127,107)

OTHER INCOME (EXPENSE)

Investment income	591
Miscellaneous income	359
Interest expense	(121,070)
Write off of abandoned project costs	(10,151)
Write off obsolete inventory	(29,000)
Amortization	<u>(6,448)</u>

TOTAL OTHER INCOME (EXPENSE) (165,719)

DECREASE IN NET ASSETS BEFORE
DISCONTINUED OPERATIONS (292,826)

DISCONTINUED OPERATIONS, gain on the surrender
of the ice rink and all related assets and liabilities 977,619

INCREASE IN NET ASSETS 684,793

NET DEFICIT AT BEGINNING OF YEAR (650,721)

NET ASSETS AT END OF YEAR \$ 34,072

See accompanying notes.

YORK CITY RECREATION CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (306,286)
Adjustments to reconcile decrease in net assets to net cash used by operating activities	
Depreciation and amortization	283,254
Amortization of prepaid land lease expense	5,482
(Increase) decrease in	
Accounts receivable, net of allowance	21,380
Inventory	28,791
Prepaid expenses	(3,413)
Increase (decrease) in	
Accounts payable and accrued operating expenses	16,222
Accrued payroll and payroll taxes	(12,362)
Accrued interest	(60,516)
Sales tax payable	(6,296)
Deferred revenue	(7,258)
Deposits	(1,252)
NET CASH USED BY OPERATING ACTIVITIES	<u>(42,254)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	(34,282)
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CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on loan	<u>(5,176)</u>
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NET DECREASE IN CASH (81,712)

CASH AT BEGINNING OF YEAR 129,304

CASH AT END OF YEAR \$ 47,592

DECREASE IN NET ASSETS BEFORE DISCONTINUED OPERATIONS

Cash effects of discontinued operations	<u>(13,460)</u>
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DECREASE IN NET ASSETS INCLUDING CASH EFFECTS OF DISCONTINUED OPERATIONS \$ (306,286)

See accompanying notes.

YORK CITY RECREATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The York City Recreation Corporation (the "Corporation") is incorporated under the laws of the Commonwealth of Pennsylvania as a nonprofit corporation. The entity was incorporated in December 2000 for the purpose of building and operating a new twin surface ice sports facility, converting an existing rink (Memorial Park Rink) to an in-line roller facility, utilizing the revenue to maintain and promote the new ice rink facility and initiating and enhancing recreational opportunities in the City of York (the "City").

During 2003, the Ice Rink and all related assets and liabilities were surrendered to the City (see Note F).

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Corporation reports under Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost.

Building, building improvements and land improvements are depreciated using a straight-line method over estimated useful lives ranging from 20 to 25 years. Equipment is depreciated using a straight-line method over estimated useful lives ranging from three to ten years.

YORK CITY RECREATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Bond Issue Costs

Bond issue costs for the Series of 2001 Bonds are amortized using the straight-line method over 20 years. The remaining net book value of bond issue costs was written off when the City assumed the assets and liabilities of the Ice Rink (see Note F).

Tax-Exempt Status

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE B **PREPAID LAND LEASE EXPENSE**

During 2001, the Corporation spent \$109,650 to construct a new softball field on Vander Avenue. The City required these improvements as part of the lease agreement for the new twin-pad ice skating facility. The \$109,650 was recorded as prepaid rent and was amortized over the life of the lease using a straight-line method over 20 years. The net book value of \$95,487 was written off when the City assumed the assets and liabilities of the Ice Rink (see Note F).

NOTE C **PROPERTY AND EQUIPMENT**

Property and equipment consist of:

Equipment	\$	32,269
Accumulated depreciation		<u>(2,026)</u>
	\$	<u>30,243</u>

During 2003, the Corporation expended \$10,151 to construct and equip a restaurant in the Ice Arena. The project has been abandoned as of the date of this report, and the costs associated with the project have been written off as of December 31, 2003.

During 2003, the City assumed the assets and liabilities of the Ice Rink (see Note F). As a result, the net book value of \$5,854,414 was written off as a component of the net gain on surrender of the Ice Rink.

YORK CITY RECREATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D DEBT

Loan to the City of York General Authority (Guaranteed Revenue Bonds, Series of 2001)

On May 1, 2001, the City of York General Authority issued the Guaranteed Revenue Bonds, Series of 2001, in the aggregate principal amount of \$7,305,000. The Authority then loaned the proceeds of the bonds to the Corporation for the purpose of planning, designing, furnishing, constructing and equipping a new skating rink and making improvements to the Memorial Park Ice Skating Rink.

The Corporation entered into a loan agreement with the Authority dated May 1, 2001. Under this agreement, the Corporation pledged its full faith and credit to repay the loan in installment payments, in an aggregate amount sufficient to pay the principal and interest in accordance with the Guaranteed Revenue Bonds, Series of 2001.

The bonds are guaranteed by the City pursuant to a guaranty agreement. Under the guaranty agreement, this obligation is a general obligation of the City, secured by the City's full faith and credit and taxing power.

The entire principal obligation of \$7,305,000 was written off as a component of the gain on the surrender of the Ice Rink because the Corporation peaceably surrendered the Ice Rink in October 2003, at which time the City assumed the debt (see Note F).

During 2003, interest expense of \$120,995 was incurred by the Corporation.

Premium Finance Agreement

In June 2002, the Corporation entered into an insurance premium finance agreement. Monthly payments, including interest and principal, are \$1,756, with interest charged at 8.75%. The balance of \$5,176 was paid in full in 2004.

YORK CITY RECREATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE E LEASE AGREEMENT

On May 24, 2001, the Corporation entered into a lease agreement with the City, whereby the Corporation agreed to lease the Memorial Park Ice Skating Rink and land from the City. The Corporation agreed to plan, furnish, construct and equip, at the Corporation's expense, a new twin-pad ice skating rink on the land leased from the City.

The term of the lease is 20 years beginning May 24, 2001, with a base minimum lease payment of \$6,000 per year. In addition to the base rent, the Corporation agreed to pay to the City all net revenue in excess of the Corporation's operating expenses, reasonable reserve payments and all other annual payments required under the loan agreement or Trust Indentures or other loan documents associated with the Authority's Guaranteed Revenue Bonds, Series of 2001.

In October 2003, the Corporation surrendered possession of the Ice Rink, and the lease was terminated (see Note F).

NOTE F DISCONTINUED OPERATIONS - GAIN ON THE SURRENDER OF THE ICE RINK AND ALL RELATED ASSETS AND LIABILITIES

The Corporation did not have the cash flow necessary to fund its November 1, 2003 debt service payment and, therefore, the City had to fund this payment. In addition, the Corporation was unable to make the required payments under the lease and loan agreements. On October 14, 2003, the City and the Corporation, by resolution, agreed that the Corporation would surrender possession of the Ice Rink, all records and personal property as consideration for the City making payment of the Corporation's debt service obligation.

All assets and liabilities related to the Ice Rink were written off, resulting in a net gain on surrender in the amount of \$977,619. A net gain on this transaction resulted because the amount of the relief of liabilities exceeded the net book value of the assets surrendered as follows:

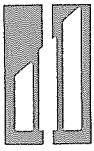
Bond payable surrendered	\$ 7,305,000
Net assets surrendered	<u>6,327,381</u>
GAIN ON SURRENDER	\$ <u>977,619</u>

YORK CITY RECREATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

On December 29, 2003, the Corporation signed a lease with the City. The Corporation will continue to run and operate the second floor community room, with all proceeds generated from activities in the community room, less expenses, returned to the City to support the Corporation's debt service that the City is now obligated to pay. The Corporation will pay a base rent of \$1 per year to the City.



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Independent Auditors' Report on Additional Information

To the Board of Directors
York City Recreation Corporation
York, Pennsylvania

Our report on our audit of the basic financial statements of the York City Recreation Corporation for 2003 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of not observing beginning and ending inventory as explained in the third paragraph of our report on page 1, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maillie, Falconiero & Company, LLP

June 3, 2005

YORK CITY RECREATION CORPORATION

SCHEDULE OF COST OF GOODS SOLD

Year Ended December 31, 2003

COST OF GOODS SOLD

Direct labor	\$ 125,351
Department managers	162,682
Payroll tax expenses	29,183
Purchases	
Pro shop	109,140
Concessions	68,116
Bingo	61,071
Chiller	8,141
Hockey programs, leagues and tournaments	31,793
Party and event expenses	203
Insurance	49,803
Arena maintenance and supplies	67,162
Day camp expenses	3,717
Outside services	5,612
Depreciation	256,963
Land lease expenses	8,250
Utilities	140,805
Trash removal	2,270
License and permits	2,275
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	\$ <u>1,132,537</u>

YORK CITY RECREATION CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
Year Ended December 31, 2003

GENERAL AND ADMINISTRATIVE EXPENSES

Advertising and marketing expenses	\$ 24,788
Bank and credit card fees	9,594
Computer maintenance agreements	11,341
Depreciation	19,843
Dues and subscriptions	2,400
Equipment rental	4,220
Insurance	3,628
Legal and accounting fees	13,113
Meals and entertainment	1,807
Miscellaneous	3,901
Office expenses	15,027
Payroll tax expenses	239
Rent	5,483
Salaries, administrative	1,450
Telephone	8,594
Travel	1,205
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	\$ <u>126,633</u>