

**Lancaster County Convention  
Center Authority**

**Financial Statements with  
Supplementary Information**

**Years Ended December 31, 2014 and 2013  
with Independent Auditor's Report**

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2014 AND 2013

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## Independent Auditor's Report

Board of Directors  
Lancaster County Convention Center Authority

We have audited the accompanying financial statements of the Lancaster County Convention Center Authority (Authority), a component unit of the County of Lancaster, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information on pages 27 and 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maher Duessel*

Harrisburg, Pennsylvania  
March 19, 2015

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,658,438	\$ 1,568,320
Receivables:		
Taxes	782,762	713,318
Other	40,139	65,469
Due from Interstate Hotels & Resorts	40,978	14,870
Inventory	8,838	5,878
Other prepaid expenses	52,949	36,675
Total current assets	2,584,104	2,404,530
Restricted assets:		
Cash and investments	6,091,031	5,658,311
Total restricted assets	6,091,031	5,658,311
Capital assets:		
Land	1,579,621	1,579,621
Building	75,078,380	75,078,380
Furniture, fixtures, and equipment:		
Convention Center	4,051,093	4,051,093
Penn Square Condominium Association	404,324	404,324
Office	36,865	37,411
	81,150,283	81,150,829
Less: accumulated depreciation	13,525,721	11,124,129
Net capital assets	67,624,562	70,026,700
Other assets:		
Interest rate swap asset	-	7,714,454
Total other assets	-	7,714,454
<b>Total Assets</b>	<b>\$ 76,299,697</b>	<b>\$ 85,803,995</b>

(Continued)

	<u>2014</u>	<u>2013</u>
<b>Liabilities and Net Position</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 15,106	\$ 20,857
Accrued payroll and payroll expense	6,804	5,822
Other accrued expenses	256,858	214,411
Current portion of note payable	-	400,000
Current portion of bonds payable	370,000	-
Unearned revenue	65,590	72,135
Contingency fee payable	50,000	-
Developer's fee payable	-	34,800
Total current liabilities	<u>764,358</u>	<u>748,025</u>
Current liabilities (payable from restricted assets):		
Accrued interest payable	<u>234,566</u>	<u>292,931</u>
Total current liabilities (payable from restricted assets)	<u>234,566</u>	<u>292,931</u>
Long-term liabilities:		
Reimbursement for contingency payable	650,000	705,245
Bonds payable	62,225,000	63,590,000
Interest rate swap liability	2,584,554	-
Swap borrowing, net of accumulated amortization of \$2,150,287 and \$1,488,660	<u>19,652,736</u>	<u>20,314,363</u>
Total long-term liabilities	<u>85,112,290</u>	<u>84,609,608</u>
Total Liabilities	<u>86,111,214</u>	<u>85,650,564</u>
<b>Net Position:</b>		
Net investment in capital assets	8,771,592	10,383,966
Restricted	1,649,001	971,000
Unrestricted	<u>(20,232,110)</u>	<u>(11,201,535)</u>
Total Net Position	<u>(9,811,517)</u>	<u>153,431</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 76,299,697</u>	<u>\$ 85,803,995</u>
		(Concluded)

The accompanying notes are an integral part of these financial statements.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating Revenues:</b>		
Conference services	\$ 1,674,888	\$ 1,660,273
Concession	210,751	210,822
Other	17,995	8,610
Total operating revenues	1,903,634	1,879,705
<b>Operating Expenses:</b>		
Departmental expenses	755,715	789,333
Undistributed operating expenses	1,630,035	1,600,090
Management fees	181,238	178,405
Fixed charges	84,575	81,090
Administrative expenses	383,287	379,997
Depreciation	2,404,745	2,418,624
Capital/development costs	29,020	40,182
Total operating expenses	5,468,615	5,487,721
<b>Operating Loss</b>	(3,564,981)	(3,608,016)
<b>Non-Operating Revenues (Expenses):</b>		
Hotel room rental tax income	5,563,285	5,098,578
Investment income	129,894	293,793
Marketing consortium contribution	50,000	-
Other income	4,336	4,345
Loss on sale of asset	(963)	-
Interest expense, net of amortization of swap borrowing of \$661,627 and \$661,627	(2,665,511)	(2,839,009)
Change in fair value of interest rate swap	(10,299,008)	10,382,194
Total non-operating revenues (expenses)	(7,217,967)	12,939,901
<b>Change in Net Position before Special Item</b>	(10,782,948)	9,331,885
<b>Special Item:</b>		
Gain on investment contract termination	818,000	-
<b>Change in Net Position</b>	(9,964,948)	9,331,885
<b>Net Position:</b>		
Beginning of period	153,431	(9,178,454)
End of period	\$ (9,811,517)	\$ 153,431

The accompanying notes are an integral part of these financial statements.

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Cash Flows From Operating Activities:</b>		
Operating receipts	\$ 1,917,174	\$ 1,862,714
Payments to suppliers for operating expenses	(2,845,390)	(2,865,688)
Payments to suppliers for project development costs	(29,020)	(40,182)
Payments to employees	(197,124)	(192,166)
Net cash used in operating activities	(1,154,360)	(1,235,322)
<b>Cash Flows From Noncapital Financing Activities:</b>		
Marketing consortium contribution	50,000	-
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchase of capital assets	(3,570)	-
Payments of developer's fee	(34,800)	(34,800)
Principal payments on note payable	(400,000)	(350,000)
Principal payments on bonds payable	(63,590,000)	-
Proceeds from issuance of debt	62,595,000	-
Receipts from hotel room revenue tax	5,493,841	4,914,635
Other receipts	4,336	4,345
Interest expense paid	(3,385,503)	(3,497,975)
Restricted for capital replacement	(618,758)	(300,250)
Net cash provided by capital and related financing activities	60,546	735,955
<b>Cash Flows From Investing Activities:</b>		
Proceeds from the sale of investments	85,232,471	11,825,291
Purchase of investments	(85,046,433)	(11,559,104)
Proceeds from termination of investment contract	818,000	-
Interest income received	129,894	220,732
Net cash provided by investing activities	1,133,932	486,919
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	90,118	(12,448)
<b>Cash and Cash Equivalents:</b>		
Beginning of period	1,568,320	1,580,768
End of period	\$ 1,658,438	\$ 1,568,320

(Continued)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2014 AND 2013  
(Continued)

	2014	2013
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	\$ (3,564,981)	\$ (3,608,016)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,404,745	2,418,624
(Increase) decrease in:		
Other receivables	25,330	(49,475)
Due from Interstate Hotels & Resorts	(26,108)	12,011
Inventory	(2,960)	5,189
Other prepaid expenses	(16,274)	4,250
Increase (decrease) in:		
Accounts payable	(5,751)	(27,073)
Accrued payroll and payroll expenses	982	1,515
Contingency payable	(5,245)	-
Other accrued expenses	42,447	(24,831)
Unearned revenue	(6,545)	32,484
Total adjustments	2,410,621	2,372,694
Net cash used in operating activities	\$ (1,154,360)	\$ (1,235,322)
		(Concluded)

The accompanying notes are an integral part of these financial statements.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Lancaster County Convention Center Authority (Authority), a component unit of the County of Lancaster (County), was formed on September 15, 1999, under the Municipal Authority Act of 1945 and the Third Class County Convention Center Authority Act. The purpose of the Authority is to provide financing and arrange for the development, construction, and operation of convention center facilities for the public purpose of promoting, attracting, stimulating, developing, and expanding business, industry, commerce, and tourism in the Commonwealth of Pennsylvania.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Authority and any component units. Component units are separate legal entities that (1) governing officials of a primary government are financially accountable for or (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the separate legal entity from the financial reporting entity would render the financial statements misleading or incomplete.

The Authority is part of the County's reporting entity based on the above criteria. These are the separate component unit financial statements of the Authority. No other entities need to be included based on the above criteria.

A business plan was developed, which allowed the construction of the Lancaster County Convention Center and the Lancaster Marriott at Penn Square. The plan was the result of a complex and cooperative effort among government and community leaders and public and private partners. Throughout 2007 – 2009, the Authority incurred construction costs associated with the project.

The Lancaster County Convention Center and the Lancaster Marriott at Penn Square opened for operations on June 19, 2009.

The Lancaster County Convention Center began operations on June 19, 2009 under the Qualified Convention Center Management Agreement, dated January 23, 2002, between the Authority and Interstate Hotels & Resorts (IHR). The Qualified Convention Center Management Agreement is for the period commencing with the opening of the convention center and expiring on June 19, 2019.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### Basis of Accounting

The Authority's financial statements are presented using the accrual basis of accounting, under which revenues are recorded in the period that they are earned and expenses are recorded when the liability is incurred.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Authority measures and reports all assets, liabilities, revenues, expense, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Net position (i.e., total assets net of total liabilities) is segregated into "Net Investment in Capital Assets"; "Restricted" for various purposes; and "Unrestricted" components.

The Authority is a member of the Penn Square Condominium Association, which is comprised of two ownership groups. The other ownership group is Penn Square Partners, a private entity. Each ownership group has their own business operation with revenues and expenses, as described in their development agreements. Where tracking actual expenses would become too costly, approved allocation methodologies have been incorporated. These allocations are described in the IHR Operational Expense Guidelines (Guidelines). The Guidelines only interpret the governing documents and do not rewrite them.

### Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments and certificates of deposit purchased with a maturity of three months or less to be cash equivalents.

### Investments

With the exception of guaranteed investment contracts which are at contract value, the Authority accounts for investments at fair value. The fair value of the Authority's investments is based upon values provided by external investment managers and quoted market prices.

### Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, and marketing consortium funds are classified as restricted assets on the balance sheet, because their use is limited by applicable trust indentures or other agreements.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### Capital Assets

Capital assets are carried at cost, if purchased or constructed. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Building, furniture, fixtures, and equipment are depreciated over the estimated useful lives using the straight-line method.

The useful lives for purposes of computing depreciation are as follows:

Buildings	40 years
Furniture, fixtures, and equipment	5-10 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. A portion of the interest incurred during the construction phase of capital assets is included as part of the capitalized value of the asset constructed.

### Net Position

Net position comprises the various net earnings from operating and non-operating revenues and expenses and contributions of capital. Net position is classified in the following three components: Net investment in capital assets; restricted for various purposes; and unrestricted net position.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at the end of the reporting period, the portion of the debt attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.

The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Accordingly, upon settlement, actual results may differ from estimated amounts.

### Operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues and expenses from operations include departmental operating revenues, departmental operating expenses, undistributed operating expenses, management fees, and fixed charges. The principal operating revenues of the Authority are conference services revenue and concession revenue. The principal operating expenses include energy, repairs and maintenance, conference service, and sales and marketing expenses. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

### Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, if available, and then unrestricted resources as they are needed.

## **2. HOTEL ROOM RENTAL TAX**

The County receives a 3.9% hotel room rental tax and a 1.1% excise tax from the operators of each hotel within the County. Of the total 3.9% tax, 20% was allocated to the Pennsylvania Dutch Convention and Visitors Bureau (PDCVB) to be used to promote tourism in the County, and 80% was received by the Authority to be used for construction and operation of the convention center facility. If the Authority encountered an event of default on the Hotel Room Rental Tax Revenue Bonds, Series of 2003 or the Hotel Room Rental Tax Revenue Bonds, Series of 2007, (collectively, the Bonds) the 20% allocated to the PDCVB would be diverted to the trustee of the Authority's Bonds. Revenue was recognized in the period to which the County attributed collection.

As discussed in Note 13, during the years ended December 31, 2014 and 2013, the Authority failed to meet certain financial covenants of the Bonds. As a result, the 20% of hotel room rental tax allocated to the PDCVB was diverted to the Trustee Bank of the Authority's

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Bonds and recognized as additional revenue for the months of January 2014 through June 2014 and the months of April 2013 through December 2013.

As discussed in Note 13, PDCVB, the County, the City of Lancaster, the Redevelopment Authority of Lancaster (RACL), the Lancaster CRIZ Authority, and the Authority entered into a Collaboration Agreement. Under the Collaboration agreement, PDCVB agreed to direct 100% of the hotel room rental tax revenue to the Authority. As of December 31, 2016 and each December 31 thereafter, if the funds on deposit with the Trustee under the terms of the indenture exceed \$5,750,000 after all obligations have been paid, the Authority shall remit the lesser of any funds in excess of \$5,750,000 or 20% of the hotel room rental tax revenue by January 15 of the following year to PDCVB. As of July 2019, the terms of the Lancaster County Ordinance No. 45 shall again govern the distribution of the hotel room rental tax revenue.

### **3. LEASE AGREEMENT – LANCASTERHISTORY.ORG**

In December 2010, the Authority entered into a lease agreement with LancasterHistory.Org (LHO) for the lease of the Thaddeus Stevens House, Kleiss Saloon, Underground Historic Area, and other areas immediately outside the Stevens House, the Kleiss Saloon, and associated with the Underground Historic Area. LHO intends to develop a national historic exhibition on a portion of these properties. The remaining portion of the properties will be renovated and utilized by LHO. The lease commenced on December 21, 2010, for a period of twenty years. LHO is responsible for insurance and real property taxes. The basic rent for the leased properties is one dollar. Until LHO commences construction of the improvements, LHO shall pay monthly the sum of two hundred fifty dollars (\$250.00) for common area charges. After construction begins, these fees will be adjusted every three years based on actual charges.

### **4. DEPOSITS AND INVESTMENTS**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposits. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

### Deposits

*Custodial credit risk* - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2014, the book balance of the Authority was \$6,715,221 and the bank balance was \$6,494,989. At December 31, 2014, the book balance included \$5,056,783 and the bank balance included \$5,059,787 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2013, the book balance of the Authority was \$2,070,700 and the bank balance was \$2,069,366. At December 31, 2013, the book balance included \$502,380 and the bank balance included \$502,380 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$750,000 and \$500,000 was covered by federal depository insurance at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the remainder of the bank balance was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### Investments

Restricted investments of the Authority at December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 1,034,248	\$ 1,044,802
Guaranteed investment contracts	-	4,111,129
	<u>\$ 1,034,248</u>	<u>\$ 5,155,931</u>

*Custodial Credit Risk* – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the Authority will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal policy for custodial credit risk. All of the Authority's investments are held by the trustee in the Authority's name.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

*Concentration of Credit Risk* - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2013, more than five percent of the Authority's investments are held as follows:

	Contract Value	% of Total	Yield
Guaranteed investment contracts:			
Citigroup Financial Product	\$ 4,111,129	79.74%	5.315%

On July 29, 2014, the Authority entered into a termination agreement related to the guaranteed investment contracts, in connection with the refunding of the Authority's debt. As a result of the termination agreement, the Authority received an \$818,000 termination fee. The guaranteed investment contract proceeds and the termination fee were applied to the principal of the Hotel Room Rental Tax Revenue Bonds, Series of 2003 and 2007 in the amount of \$993,947 and to the funding of the debt service reserve fund in the amount of \$3,935,182.

*Credit Risk* – The Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2014 and 2013, the Authority's investment in money market funds were rated AAAM by Standard & Poor's. As of December 31, 2013, the guaranteed investment contracts were unrated.

*Interest Rate Risk* – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2014, all of the Authority's investments had an average maturity of less than one year. The following is a list of the Authority's investments and their related average maturities at December 31, 2013:

	Fair/ Contract Value	Investment Maturity	
		2014	2022
Money market funds	\$ 1,044,802	\$ 1,044,802	\$ -
Guaranteed investment contracts	4,111,129	-	4,111,129
Total	\$ 5,155,931	\$ 1,044,802	\$ 4,111,129

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

### 5. CAPITAL ASSETS

A summary of changes in capital assets for the year ending December 31 is as follows:

	Beginning Balance 1/1/2014	Additions	Disposals	Ending Balance 12/31/2014
Capital assets not being depreciated:				
Land	\$ 1,579,621	\$ -	\$ -	\$ 1,579,621
Total capital assets not being depreciated	<u>1,579,621</u>	<u>-</u>	<u>-</u>	<u>1,579,621</u>
Capital assets being depreciated:				
Building	75,078,380	-	-	75,078,380
Furniture, fixtures, and equipment:				
Convention Center	4,051,093	-	-	4,051,093
Penn Square Condominium Association	404,324	-	-	404,324
Office	37,411	3,570	(4,116)	36,865
Total capital assets, being depreciated	<u>79,571,208</u>	<u>3,570</u>	<u>(4,116)</u>	<u>79,570,662</u>
Less accumulated depreciation for:				
Building	8,983,351	1,963,893	-	10,947,244
Furniture, fixtures, and equipment	2,140,778	440,852	(3,153)	2,578,477
Total accumulated depreciation	<u>11,124,129</u>	<u>2,404,745</u>	<u>(3,153)</u>	<u>13,525,721</u>
Total capital assets being depreciated, net	<u>68,447,079</u>	<u>(2,401,175)</u>	<u>(963)</u>	<u>66,044,941</u>
Total capital assets, net	<u>\$ 70,026,700</u>	<u>\$ (2,401,175)</u>	<u>\$ (963)</u>	<u>\$ 67,624,562</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Beginning Balance 1/1/2013	Additions	Disposals	Ending Balance 12/31/2013
Capital assets not being depreciated:				
Land	\$ 1,579,621	\$ -	\$ -	\$ 1,579,621
Total capital assets not being depreciated	1,579,621	-	-	1,579,621
Capital assets being depreciated:				
Building	75,078,380	-	-	75,078,380
Furniture, fixtures, and equipment:				
Convention Center	4,051,093	-	-	4,051,093
Penn Square Condominium Association	404,324	-	-	404,324
Office	37,411	-	-	37,411
Total capital assets, being depreciated	79,571,208	-	-	79,571,208
Less accumulated depreciation for:				
Building	7,019,459	1,963,892	-	8,983,351
Furniture, fixtures, and equipment	1,686,046	454,732	-	2,140,778
Total accumulated depreciation	8,705,505	2,418,624	-	11,124,129
Total capital assets being depreciated, net	70,865,703	(2,418,624)	-	68,447,079
Total capital assets, net	\$ 72,445,324	\$ (2,418,624)	\$ -	\$ 70,026,700

### 6. CONTINGENCY AND DEVELOPER'S FEE PAYABLE

Per the second amendment to the Professional Services Development Agreement, the Authority is to pay the developer the remaining developer's fees and developer's expenses and reimbursable costs of \$328,000. The Authority paid the developer \$154,000 during May 2010 and \$34,800 annually during the years ended December 31, 2010 through December 31, 2014.

Per the second amendment to the Joint Development Agreement among the Authority, the RACL, and Penn Square Partners (PSP), the Authority is to pay \$700,000 to PSP to reimburse the RACL/PSP contingency provided under the agreement. RACL/PSP agrees to use the funds received to either complete the Project or to be deposited into the Furniture, Fixtures and Equipment (FF&E) Reserve Fund for the hotel. The Authority is to make annual payments of \$50,000 beginning March 15, 2015.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 7. BONDS PAYABLE

During the year ending March 31, 2007, the Authority remarketed the Hotel Room Rental Tax Revenue Bonds, Series of 2003 (\$40,000,000) (Series of 2003 Bonds), and issued the Hotel Room Rental Tax Revenue Bonds, Series of 2007 (\$23,920,000) (Series of 2007 Bonds), (collectively, the Bonds) for the purpose of paying, together with other available funds, the costs of (i) funding the design, acquisition, construction, furnishing, and equipping of that certain Lancaster County Convention Center, as defined in the Indenture; (ii) funding necessary reserves for the project and the Bonds; (iii) the establishment of necessary reserves and other funds under the Indenture; (iv) payment of the costs and expenses of issuance of the Bonds; and (v) refunding certain outstanding indebtedness of the Issuer. The Bonds were secured by a pledge of all current and future revenue derived by the Authority from its share of hotel room rental tax and all monies and investments held by Trustee Bank under the Indenture and are initially secured by an irrevocable, direct pay letter of credit issued by Wachovia Bank, National Association.

The Bonds initially bore interest at a Weekly Rate. During the Weekly Mode, interest on the Bonds was to be paid on the first business day of each calendar month, commencing on May 1, 2007. The Weekly Rate for the Bonds was computed by Wachovia Bank, National Association for each Weekly Rate Period. The Weekly Rate was not to exceed 12% per annum. At times specified in the Indenture, the Issuer had the ability to cause the Bonds to be converted to a Term Mode. The Bonds, if converted, were subject to mandatory purchase on the date of such conversion. The floating interest rate under the Weekly Mode was sixty-seven percent (67%) of USD-LIBOR-BBA on the agreed-upon payment dates.

The County had guaranteed to replenish the lesser of \$1,509,960 or fifty percent (50%) of the required reserve amount for the Series of 2003 Bonds in any fiscal year (\$2,610,270).

On October 3, 2011, the Bonds were restructured and the Authority entered into a continuing covenant agreement (Agreement) with Wells Fargo Bank (Bank). Under the Agreement, the Bank paid the purchase price of \$63,590,000 to M&T Bank (Trustee) for the Bonds. The Bonds were to be held by the Bank until the mandatory purchase date of March 1, 2013, at which time the Bonds were subject to mandatory tender for purchase at an amount equal to 100% of the principal amount of the Bonds, plus accrued interest. On this date, the Authority was to cause the Bonds to be remarketed to the Bank or to new investors at any of the interest rate options provided in the Agreement.

The Bank extended the mandatory purchase date related to the Bonds to August 1, 2014. All other provisions of the Agreement remain in effect through the mandatory purchase date.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Under the Agreement, the interest rate was converted from the Weekly Rate to the Index Interest Rate. The Bonds were to bear interest at a per annum rate of interest equal to the sum of (i) the Index, defined as 67% of LIBOR, and (ii) the Applicable Spread, commencing October 3, 2011. The Applicable Spread effective from October 3, 2011 through February 28, 2012 was defined as 95 basis points on the Series of 2003 Bonds and 125 basis points on the Series of 2007 Bonds. Effective March 1, 2012, the Applicable Spread increased to 175 basis points on the Series of 2003 Bonds and 190 basis points on the Series of 2007 Bonds. The Applicable Spread could be reduced if the Authority was able to accomplish certain milestones as set forth in the Agreement. At December 31, 2013, the Index Interest Rate on the Series of 2003 Bonds was 1.864 percent. At December 31, 2013, the Index Interest Rate on the Series of 2007 Bonds was 2.014 percent. At the option of the Authority, the Bonds could have been optionally redeemed or converted to another interest rate mode to be effective on the interest payment date prior to the mandatory purchase date upon 60 days written notice to the Bank.

On August 1, 2014, the Bonds were refunded through the issuance of the Hotel Room Rental Tax Revenue Bonds, Series of 2014 (2014 Bonds) in the amount of \$62,595,000. At the date of refunding, the interest rate on the Series of 2003, Series of 2007, and 2014 Bonds was 1.855%, 2.005%, and .859%, respectively. The fee received from the termination of the guaranteed investment contracts, including accrued interest, along with funds realized from a reduction in the debt service reserve fund requirements associated with the 2014 Bonds totaling \$995,000, was used to pay a portion of the principal due on the Bonds. In addition, the debt service reserve requirement for the 2014 Bonds was reduced from \$4.1 million to \$3.9 million. The 2014 Bonds are subject to mandatory tender on July 31, 2019.

The 2014 Bonds initially bear interest, through the mandatory tender date, at a rate equal to the sum of the index rate, SIFMA or 70% of LIBOR, plus the Applicable Spread, initially 75 basis points, fixed for five years. The bonds will bear interest at the index rate during the index rate period provided no event of default has occurred. At the option of the Authority, the Bonds may be optionally redeemed or converted to another interest rate mode to be effective on any LIBOR reset date prior to the mandatory tender date upon 60 days written notice to the Bank and compliance with the applicable provisions of the related documents. The 2014 Bonds debt service payments are guaranteed by the County.

The amount of outstanding 2014 Bonds at December 31, 2014 is \$62,595,000. The amount of outstanding Hotel Room Rental Tax Revenue Bonds, Series of 2003 and Series of 2007 at December 31, 2013 is \$63,590,000.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Long-term liability activity for the year ended was as follows:

December 31, 2014	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable:					
Series of 2003	\$ 39,670,000	\$ -	\$(39,670,000)	\$ -	\$ -
Series of 2007	23,920,000	-	(23,920,000)	-	-
Series of 2014	-	62,595,000	-	62,595,000	370,000
Long-term liabilities	<u>\$ 63,590,000</u>	<u>\$ 62,595,000</u>	<u>\$(63,590,000)</u>	<u>\$ 62,595,000</u>	<u>\$ 370,000</u>

December 31, 2013	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable:					
Series of 2003	\$ 39,670,000	\$ -	\$ -	\$ 39,670,000	\$ -
Series of 2007	23,920,000	-	-	23,920,000	-
Long-term liabilities	<u>\$ 63,590,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,590,000</u>	<u>\$ -</u>

The debt service requirements, through the mandatory tender date at the rate in effect as of December 31, 2014 are as follows:

	Principal	Interest	Total
2015	\$ 370,000	\$ 540,836	\$ 910,836
2016	410,000	537,609	947,609
2017	460,000	534,028	994,028
2018	510,000	530,016	1,040,016
2019	60,845,000	482,143	61,327,143
	<u>\$ 62,595,000</u>	<u>\$ 2,624,632</u>	<u>\$ 65,219,632</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

Interest expense consisted of the following for the years ended December 31:

	2014	2013
Note payable	\$ 12,989	\$ 25,832
Bond refunding closing costs	129,117	-
Interest - variable rate (net)	942,276	1,247,459
Interest rate - fixed rate	2,242,756	2,227,345
Amortization of swap borrowing	(661,627)	(661,627)
	\$ 2,665,511	\$ 2,839,009

As further described in Note 9, the Authority entered into a pay fixed, receive variable interest rate swap on the applicable notional amounts of the Series of 2003 Bonds and Series of 2007 Bonds to 3.67% and 3.57%, respectively, at December 31, 2014 and 2013.

### 8. NOTE PAYABLE

In October 2011, in conjunction with the restructuring of the Bonds, the Authority entered into a term note agreement with Wells Fargo Bank in the amount of \$750,000 for the purpose of paying for the costs associated with the restructuring of the Bonds, as discussed in Note 7. The note was secured by a pledge of all current and future revenue derived by the Authority from its share of hotel room rental tax. Interest was payable monthly at a fixed rate of 3.5%, commencing November 1, 2011 through the maturity date of December 1, 2014.

Note payable activity for the year ended was as follows:

	Beginning of Year	Additions	Retirements	End of Year	Current Portion
December 31, 2014					
Note payable	\$ 400,000	\$ -	\$ (400,000)	\$ -	\$ -
December 31, 2013					
Note payable	\$ 750,000	\$ -	\$ (350,000)	\$ 400,000	\$ 400,000

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 9. DERIVATIVES – INTEREST RATE SWAP

*Objective* - As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2007, the Authority entered into an interest-rate swap (Swap) in connection with the Bonds. The intention of the Swap was effectively to change the Authority's variable interest rate on the Bonds to a synthetic fixed rate of 3.65%. Pursuant to an amended and restated confirmation between the Authority and the Counterparty, Wells Fargo Bank, dated September 28, 2011, the amortization, maturity dates, and fixed payment rates on the Swap related to the Bonds were amended. Effective October 3, 2011, in conjunction with the Agreement disclosed in Note 7, the fixed payment on the Swap related to the Series of 2003 Bonds was 3.67% and the fixed payment on the Swap related to the Series of 2007 Bonds was 3.57%.

*Terms* - The Swap agreements mature on December 1, 2042 (Series of 2003 Bonds) and December 1, 2047 (Series of 2007 Bonds), and the Swap's notional amount of \$40,000,000 and \$23,920,000, respectively, was 100% of the total issue amount of the underlying bonds. The notional amount of the Swap agreement decreases as the outstanding principal amount of the corresponding Series of 2003 Bonds and Series of 2007 Bonds were scheduled to decrease through maturing principal. The Swap agreements were entered into in March 2007. Prior to October 3, 2011, under the Swap agreements, the Authority paid the counterparty a fixed payment of 3.65% and received a variable payment computed as 67% of the one-month London Interbank Offered Rate (LIBOR). Conversely, the Bonds' variable-rate was based on the Weekly Rate determined by the remarketing agent. Effective October 3, 2011, the Authority pays the counterparty a fixed payment of 3.67% related to the applicable notional amounts of the Series of 2003 Bonds and 3.57% related to the applicable notional amounts of the Series of 2007 Bonds.

Pursuant to the Swap agreements, the Authority pays or receives to/from the counterparty a monthly net swap payment. For the year ended December 31, 2014, the Authority paid \$1,414,045 and \$828,711 fixed and received \$43,457 and \$26,203 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively. For the year ended December 31, 2013, the Authority paid \$1,404,429 and \$822,916 fixed and received \$44,440 and \$26,796 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial statements. The Swap is highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the Swap's fair value.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

*Fair Value Risk* - Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value is based upon mid-market quotations for the transactions. Mid-market quotations are based on bid/ask quotations shown on reliable electronic information screens as of close of business on the date specified. Such amount represents the present value difference between the floating rate receipt and fixed rate payment as of December 31, 2014 and the termination value fluctuates as the interest rates fluctuate.

Because the 2011 amendment and restatement changed the critical terms of the Swap agreements, the original Swap was effectively terminated upon amendment. At the date of amendment, the swap liability was reclassified to a swap borrowing on the balance sheet. Governmental accounting standards require that the swap borrowing be amortized to offset interest expense, straight-line, over the life of the bonds.

The change in fair value for the interest rate swaps is as follows:

Notional Amount	January 1, 2014 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2014 - Fair Value
\$ 39,670,000	\$ (7,509,277)	\$ 403,105	\$ (5,182,579)	\$ (12,288,751)
23,920,000	(5,090,632)	258,522	(5,116,429)	(9,948,539)
Total	<u>\$ (12,599,909)</u>	<u>\$ 661,627</u>	<u>\$ (10,299,008)</u>	<u>\$ (22,237,290)</u>

Notional Amount	January 1, 2013 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2013 - Fair Value
\$ 39,670,000	\$ (13,581,611)	\$ 403,105	\$ 5,669,229	\$ (7,509,277)
23,920,000	(10,062,119)	258,522	4,712,965	(5,090,632)
Total	<u>\$ (23,643,730)</u>	<u>\$ 661,627</u>	<u>\$ 10,382,194</u>	<u>\$ (12,599,909)</u>

*Accounting and Risk Disclosures* - As previously noted, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2014 and 2013, current period changes in fair value for the Swap are accounted for as an investment and are recorded on the statements of revenues, expenses, and change in net position as change in fair value of interest rate swap. The fair value of the outstanding Swap as of December 31, 2014 and 2013 is reported on the statements of net position as a combination of interest rate swap asset/liability and swap borrowing.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

*Credit Risk* - As of December 31, 2014 and 2013, the Authority's Swap agreements were not exposed to credit risk, because they had a negative fair value. However, should interest rates change and the fair value of the Swap become positive, the Authority would be exposed to credit risk in the amount of the Swap agreement's fair value. At December 31, 2014 and 2013, the Bank was rated Aa3 by Moody's, AA- by Standard & Poor's, and AA- by Fitch.

*Swap Payments and Associated Debt* – Using rates as of December 31, 2014, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows. As these rates vary, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds will vary:

Fiscal Year Ending December 31,	Series of 2003, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
2015	\$ 370,000	\$ 1,411,334
2016	410,000	1,398,042
2017	460,000	1,383,296
2018	510,000	1,366,769
2019	570,000	1,348,434
2020 - 2024	3,805,000	6,391,120
2025 - 2029	5,780,000	5,575,078
2030 - 2034	8,380,000	4,363,398
2035 - 2039	11,760,000	2,631,711
2040 - 2042	7,625,000	509,308
	\$ 39,670,000	\$ 26,378,490

**LANCASTER COUNTY CONVENTION  
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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
2015	\$ -	\$ 827,741
2016	-	827,741
2017	-	827,741
2018	-	827,741
2019	-	827,741
2020 - 2024	-	4,138,705
2025 - 2029	-	4,138,705
2030 - 2034	-	4,138,705
2035 - 2039	-	4,138,705
2040 - 2044	10,525,000	3,719,226
2045 - 2047	13,395,000	972,003
	\$ 23,920,000	\$ 25,384,754

*Subsequent Event* – As of February 28, 2015, the fair value of the Authority’s interest rate swap was (\$24,256,431).

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

### 10. RESTRICTED ASSETS

The restricted assets represent funds derived from the proceeds of the Bonds and other agreements. The funds are restricted for payment of construction costs, debt service payments, settlement costs, and operating and administrative expenses. Restricted assets at December 31 are as follows:

	2014	2013
Cash and investments with trustee:		
Debt service reserve fund	\$ 3,935,645	\$ 4,185,181
Bond fund	500,000	500,000
Operating expense fund	84,248	20,750
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	4,969,893	5,155,931
Cash and investments held by Authority:		
HRRT depository	2,130	2,130
Construction fund	4,255	-
Capital replacement fund	900,757	500,250
Marketing consortium funds	213,996	-
Total restricted assets	\$ 6,091,031	\$ 5,658,311

### 11. RESTRICTED NET POSITION

Net position is restricted at December 31 as follows:

	2014	2013
Rate stabilization fund	\$ 450,000	\$ 450,000
Operating expense fund	84,248	20,750
Capital replacement fund	900,757	500,250
Marketing consortium funds	213,996	-
Total restricted net position	\$ 1,649,001	\$ 971,000

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 12. RISK MANAGEMENT

The Authority maintains insurance contracts to mitigate the risk of loss arising from the following events: torts; theft of, damage to, or destruction of certain assets; wrongful acts by directors and officers; job-related illness or injuries to employees; acts of God; and losses resulting from providing medical benefits to employees and their dependents. Contracts are limited liability and limited to specific properties. Settled claims have not exceeded the commercial coverage insurance in any of the past three fiscal years.

### 13. COMMITMENTS AND CONTINGENCIES

#### Continuing Covenant Agreement

Under the continuing covenant agreement, the Authority is required to maintain certain minimum balances in the funds held at the Trustee Bank. Failure to meet this liquidity covenant for any quarterly period represents an event of default. During the years ended December 31, 2014 and 2013, the Authority failed to meet this liquidity covenant for the quarters ending March 31 and June 30, 2014, and quarters ending March 31, June 30, September 30, and December 31, 2013. As a result of the event of default, the Bank directed the County to divert the 20% of hotel room rental tax allocated to the PDCVB to the Trustee Bank of the Authority's Bonds. Per the Collaboration Agreement, the PDCVB agreed to deliver an irrevocable letter directing the Lancaster County Treasurer to direct 100% of the hotel room rental tax revenues to the Authority for the period of July 2014 through June 2019.

#### Collaboration Agreement

Beginning in 2014, the Authority approved a five-year financing commitment in an effort to increase the marketability of the Convention Center and, in turn, the promotion and attraction of business, industry, commerce, and tourism within the County. The Authority agrees to make payments for the purpose of targeting marketing activities to attract higher priority events. The funding shall amount to \$35,000 per year through 2020. The Authority agrees to approve an annual marketing budget and restrict available funds and disburse the following minimum annual expenses for the marketing of priority 1 and priority 2 events as follows:

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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<u>Period</u>	<u>Annual Minimum</u>
2014-2015	\$ 229,000
2015-2016	242,000
2016-2017	291,000
2017-2018	340,000
2018-2019	389,000
2019-2020	405,000
2020-2021	423,000

The Authority shall restrict the marketing funds in four equal installments on July 1, September 1, October 1, and December 1 of each year for that year's marketing campaign. As of December 31, 2014, the Authority has restricted \$167,000 for marketing as a part of this agreement. RACL agrees to make annual payments of \$100,000 to the Center, which are due quarterly on the first day of each quarter in equal installments for a period of seven years. As of December 31, 2014, RACL has provided funding of \$50,000 to the Authority as a part of this agreement. This funding is held by the Authority and is presented on the balance sheet as restricted cash and restricted net position.

#### **14. NEGATIVE UNRESTRICTED NET POSITION**

The Authority's negative unrestricted net position, as shown on the statements of net position as of December 31, 2014 and 2013, is due to a GASB requirement for governmental entities to terminate hedge accounting when a termination event has occurred on a derivative instrument (interest rate swap). A termination event occurs when a significant change in a critical term of an interest rate swap is made.

On October 3, 2011, the Authority, as a part of its bond restructuring, modified terms to their existing interest rate swap agreement. These changes were deemed significant and, according to GASB standards, the interest rate swap agreement was terminated and a new interest rate swap agreement was put in place. The mark-to-market value at the time of termination was \$21,803,023, which was included in the statement of revenues, expenses, and change in net position as a special item during the year ended December 31, 2011, and is presented on the statements of net position as a swap borrowing, net of accumulated amortization. The \$21,803,023 liability is being amortized over the life of the 2003/2007 bonds and will reduce interest expense for financial reporting purposes in future years. Additionally, the new interest rate swap agreement has been deemed to be ineffective and any changes in the mark-to-market value will flow through non-operating revenue/expense.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Since the 2008 national financial crises, the Authority has had a significant interest rate swap liability and understood that liability would be realized if, or when, the Authority refinanced its bonds or the hedge became ineffective. The October 2011 restructuring caused the Authority to account for the termination of hedge accounting as a liability on the balance sheet and recognize the swap loss during the year ended December 31, 2011 on the statement of revenues, expenses, and change in net position. The financial disclosures in prior audited financial statements and all public disclosure have always properly noted the existence of the swap liability and the impact that liability may have on the Authority's ability to refinance the bonds.

The December 31, 2014 fair value of the Authority's interest rate swap was (\$22,237,290), when compared to the December 31, 2013 fair value of (\$12,599,909) for a negative change in valuation of \$9,637,381. All change (including this \$9,637,381) in the fair value of the Authority's interest rate swap is a reflection of market conditions.

**Supplementary Information**

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating Expenses:</b>		
<hr/>		
Departmental expenses:		
Conference service	\$ 462,766	\$ 490,870
Concession	146,614	145,474
Event management	64,342	60,480
Public space	81,993	92,509
Total departmental expenses	755,715	789,333
Undistributed operating expenses:		
Administrative and general	333,893	301,922
Sales and marketing	325,652	383,516
Repairs and maintenance	457,741	420,208
Energy	470,787	452,896
Miscellaneous	41,962	41,548
Total undistributed operating expenses	1,630,035	1,600,090
Management fees	181,238	178,405
Fixed charges:		
Insurance	73,759	72,607
Furniture, fixtures, and equipment	10,816	8,483
Total fixed charges	84,575	81,090
Administrative expenses:		
Solicitor fees and expense	8,308	23,190
Property management	32,755	45,622
Employee compensation	198,106	193,681
Executive director expenses, employee mileage, and travel	2,581	986
Payroll taxes	14,233	14,813
Employee benefits	33,547	31,406
Office supplies and expense	2,849	2,525
Internet and computer service	9,469	9,681
Accounting fees	28,413	28,311
Business advisory fees	19,900	1,600
Insurance	22,694	21,939
Telephone expense	2,040	2,040
Advertising notices	665	396
Marketing consortium	3,004	-
Miscellaneous expense	4,723	3,807
Total administrative expenses	383,287	379,997

(Continued)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**SCHEDULE OF EXPENSES**

YEARS ENDED DECEMBER 31, 2014 AND 2013

(Continued)

	<u>2014</u>	<u>2013</u>
Depreciation	2,404,745	2,418,624
Capital/development costs:		
Accounting	17,120	28,282
Trustee fees	11,900	11,900
Total capital/development costs	<u>29,020</u>	<u>40,182</u>
Total operating expenses	<u>\$ 5,468,615</u>	<u>\$ 5,487,721</u>

(Concluded)