

**Lancaster County Convention
Center Authority**

Financial Statements with
Supplementary Information

Years Ended December 31, 2020 and 2019
with Independent Auditor's Report

MaherDuessel

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2020 AND 2019

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Balance Sheets	1
Statements of Revenues, Expenses, and Change in Net Position	3
Statements of Cash Flows	4
Notes to Financial Statements	6

Supplementary Information:

Combining Balance Sheet	31
Combining Schedule of Revenues, Expenses, and Changes in Net Position	33
Schedule of Expenses	34

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, 2020 and 2019, 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, 2020 and 2019, 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 requires 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 31 through 35 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 25, 2021

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 4,082,167	\$ 2,601,064
Receivables:		
Taxes	554,321	1,137,024
Other	53,654	146,907
Inventory	5,770	18,043
Other prepaid expenses	268,838	76,744
Other asset	13,650	-
Total current assets	<u>4,978,400</u>	<u>3,979,782</u>
Restricted assets:		
Cash and investments	10,500,506	12,317,872
Current portion of accounts receivable - Redevelopment Authority of the City of Lancaster	<u>50,000</u>	<u>100,000</u>
Total restricted assets	<u>10,550,506</u>	<u>12,417,872</u>
Capital assets:		
Land	1,607,517	1,607,517
Building	75,651,101	75,390,396
Furniture, fixtures, and equipment:		
Convention Center	5,683,384	5,338,516
Penn Square Condominium Association	515,292	516,024
Office	<u>8,451</u>	<u>36,865</u>
	83,465,745	82,889,318
Less: accumulated depreciation	<u>27,466,091</u>	<u>25,295,788</u>
Net capital assets	<u>55,999,654</u>	<u>57,593,530</u>
Other restricted assets:		
Accounts receivable - Redevelopment Authority of the City of Lancaster	<u>-</u>	<u>50,000</u>
Total other restricted assets	<u>-</u>	<u>50,000</u>
Total Assets	<u><u>\$ 71,528,560</u></u>	<u><u>\$ 74,041,184</u></u>

(Continued)

	2020	2019
Liabilities and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 66,572	\$ 32,740
Accrued payroll and payroll expense	2,974	7,843
Other accrued expenses	206,713	378,161
Due to Interstate Hotels & Resorts	43,246	147,579
Current portion of bonds payable	655,000	630,000
Unearned revenue	130,210	263,112
Contingency fee payable	50,000	50,000
Total current liabilities	1,154,715	1,509,435
Current liabilities (payable from restricted assets):		
Accrued interest payable	248,769	250,318
Due to Discover Lancaster	-	1,347,849
Total current liabilities (payable from restricted assets)	248,769	1,598,167
Long-term liabilities:		
Reimbursement for contingency payable	300,000	400,000
Bonds payable	58,990,000	59,645,000
Interest rate swap liability	13,789,710	6,903,256
Swap borrowing, net of accumulated amortization of \$6,120,049 and \$5,458,422	15,682,974	16,344,601
Total long-term liabilities	88,762,684	83,292,857
Total Liabilities	90,166,168	86,400,459
Net Position:		
Net investment in capital assets	442,136	1,493,068
Restricted	6,113,024	6,495,485
Unrestricted	(25,192,768)	(20,347,828)
Total Net Position	(18,637,608)	(12,359,275)
Total Liabilities and Net Position	\$ 71,528,560	\$ 74,041,184
		(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, 2020 AND 2019

	2020	2019
Operating Revenues:		
Conference services	\$ 405,050	\$ 2,306,822
Concession	16,059	229,824
Other	5,605	28,140
Total operating revenues	426,714	2,564,786
Operating Expenses:		
Departmental expenses	242,760	1,189,422
Undistributed operating expenses	1,201,928	1,755,691
Management fees	178,744	217,119
Fixed charges	263,232	83,661
Capital/development costs	13,587	12,344
Repairs and maintenance	551	31,933
Total operating expenses	1,900,802	3,290,170
Other Operating Expenses:		
Administrative expenses	343,760	466,946
Collaboration Agreement - Marketing Consortium	202,928	370,013
Depreciation	2,198,717	2,342,657
Total other operating expenses	2,745,405	3,179,616
Operating Loss	(4,219,493)	(3,905,000)
Non-Operating Revenues (Expenses):		
Hotel room rental tax income	3,801,239	5,518,026
Investment income	33,371	147,265
Amounts received from the County of Lancaster	3,324,000	-
Other income	5,393	12,255
Interest expense, net of amortization of swap borrowings of \$661,627 and \$661,627	(2,336,388)	(2,352,618)
Change in fair value of interest rate swap	(6,886,455)	(6,179,938)
Total non-operating revenues (expenses)	(2,058,840)	(2,855,010)
Change in Net Position	(6,278,333)	(6,760,010)
Net Position:		
Beginning of period	(12,359,275)	(5,599,265)
End of period	\$(18,637,608)	\$(12,359,275)

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities:		
Operating receipts	\$ 287,065	\$ 2,601,267
Payments to suppliers for operating expenses	(2,694,421)	(3,764,585)
Payments to suppliers for project development costs	(13,587)	(12,344)
Payments to employees	(179,771)	(248,068)
Net cash used in operating activities	(2,600,714)	(1,423,730)
Cash Flows From Noncapital Financing Activities:		
Marketing Consortium contribution	100,000	100,000
Cash Flows From Capital and Related Financing Activities:		
Purchase of capital assets	(604,841)	(387,613)
Principal payments on bonds payable	(630,000)	(570,000)
Receipts from hotel room rental tax	4,383,942	6,739,245
Payment to Discover Lancaster	(1,347,849)	(1,329,604)
Collaboration Agreement - FF&E funding	-	1,800,000
Amounts received from the County of Lancaster	3,324,000	-
Other receipts	5,393	12,255
Interest expense paid	(2,999,564)	(3,019,153)
Net withdrawals from accounts restricted for capital replacement	(14,692)	(1,710,961)
Net cash provided by capital and related financing activities	2,116,389	1,534,169
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	16,987,315	12,519,449
Purchase of investments	(15,155,258)	(12,491,448)
Interest income received	33,371	147,265
Net cash provided by investing activities	1,865,428	175,266
Net Increase in Cash and Cash Equivalents	1,481,103	385,705
Cash and Cash Equivalents		
Beginning of period	2,601,064	2,215,359
End of period	\$ 4,082,167	\$ 2,601,064

(Continued)

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

(Continued)

	2020	2019
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (4,219,493)	\$ (3,905,000)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,198,717	2,342,657
(Increase) decrease in:		
Other receivables	93,253	(14,481)
Inventory	12,273	177
Other prepaid expenses	(192,094)	(18,140)
Other asset	(13,650)	-
Increase (decrease) in:		
Accounts payable	33,832	28,238
Accrued payroll and payroll expenses	(4,869)	(2,263)
Contingency fee payable	(100,000)	(50,000)
Other accrued expenses	(171,448)	112,298
Due to Interstate Hotels & Resorts	(104,333)	(18,178)
Unearned revenue	(132,902)	100,962
Total adjustments	1,618,779	2,481,270
Net cash used in operating activities	<u>\$ (2,600,714)</u>	<u>\$ (1,423,730)</u>
		(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, 2020 AND 2019

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 Municipality Authorities 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 are required to be included based on the above criteria.

A business plan was developed, which allowed the construction of the Lancaster County Convention Center (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 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,

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

2019. On June 9, 2019 the Authority and IHR entered into the Amended and Restated Qualified Convention Center Management Agreement. The term of the Amended and Restated Qualified Convention Center Management Agreement is June 9, 2019 through June 19, 2029. Thereafter, the Amended and Restated Qualified Convention Center Management Agreement may be renewed for one renewal period of five years if mutually agreed to, in writing, by both parties.

Penn Square Partners (PSP) and the Authority agreed to an amended and restated declaration of Condominium in April 2017, in which the Authority agreed to permit the new Marriott Tower to be included into the Penn Square Condominium Association. Construction on the new Marriott Tower began in 2017 and was completed in August 2019.

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.

The Authority is a member of the Penn Square Condominium Association, which is comprised of two ownership groups. The other ownership group is PSP, 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 purchased with a maturity of three months or less to be cash equivalents.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Investments

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.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, Collaboration Agreement funds, 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.

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	3-10 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.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Unearned Revenue

Unearned revenue represents deposits received by the Authority for future events. These deposits will be recognized as revenue in the period in which the event occurs.

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.

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 particularly given the significant social and economic disruptions and uncertainties associated with the

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

ongoing COVID-19 pandemic and the COVID-19 control responses, and such differences may be material.

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 and incentive fees, Collaboration Agreement – Marketing Consortium, fixed charges, administrative expenses, and depreciation. 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, administration and general, 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.

Pending Change in Accounting Principles

In March of 2020, the GASB issued Statement No. 93, *“Replacement of Interbank Offered Rates.”* This Statement addresses accounting and financial reporting implications that will result from the replacement of the interbank offered rate. The provisions of GASB Statement No. 93 are effective for the Authority’s December 31, 2021 financial statements.

The Authority has not yet completed the various analysis required to estimate the financial statement impact of this new pronouncement.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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 originally allocated to Discover Lancaster (formerly known as the Pennsylvania Dutch Convention and Visitors Bureau) 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 Discover Lancaster 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 14, Discover Lancaster, the County, the City of Lancaster (City), the Redevelopment Authority of the City of Lancaster (RACL), the Lancaster City Revitalization and Improvement Zone Authority (Lancaster CRIZ Authority), and the Authority entered into a Collaboration Agreement. Under the Collaboration Agreement, Discover Lancaster agreed to direct 100% of the hotel room rental tax revenue to the Authority for the period July 2014 through June 2019. As of December 31, 2016, and each December 31 thereafter, if the Authority's 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 year's hotel room rental tax revenue by January 15 of the following year to Discover Lancaster.

In October 2018, the Authority and Discover Lancaster entered into a memorandum of understanding which extended Discover Lancaster's commitment to directing its 20% of the hotel room rental tax revenues to the Authority through December 31, 2023. Beginning in January 2024, the terms of the Lancaster County Ordinance No. 45 shall again govern the distribution of the hotel room rental tax revenue.

At December 31, 2020, the Authority's funds on deposit with the trustee under the terms of the trust indenture did not exceed the established thresholds, and no hotel room rental tax revenue was payable to Discover Lancaster. At December 31, 2019, the Authority's funds on deposit exceeded the established thresholds, and \$1,347,849 of the hotel room rental tax revenue was payable to Discover Lancaster under the terms of the Collaboration Agreement.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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. government obligations, short term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes allow the pooling of governmental funds for investment purposes.

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, 2020, the book balance of the Authority was \$9,001,537 and the bank balance was \$7,459,421. At December 31, 2020, the book balance included \$4,919,370 and the bank balance included \$4,994,209 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2019, the book balance of the Authority was \$7,505,742 and the bank balance was \$6,131,262. At December 31, 2019, the book balance included \$4,904,678 and the bank balance included \$3,876,024 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$500,000 was

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

covered by federal depository insurance at December 31, 2020 and 2019. At December 31, 2020 and 2019, 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

The Authority's investments are considered Level 1 based on quoted market prices. Restricted investments of the Authority at December 31 were as follows:

	2020	2019
Money market funds	\$ 5,581,136	\$ 7,413,194

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. The Authority's investments in money market funds are not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2020 and 2019, there were no investments held by the Authority that were subject to concentration of credit risk.

Credit Risk – With the exception of investments held in the debt service reserve fund, the Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2020 and 2019, the Authority's investments in money market funds were rated AAAM by Standard & Poor's.

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, 2020 and 2019, all of the Authority's investments had an average maturity of less than one year.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

5. Capital Assets

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

	Beginning Balance 1/1/2020	Additions/ Adjustments	Disposals/ Adjustments	Ending Balance 12/31/2020
Capital assets not being depreciated:				
Land	\$ 1,607,517	\$ -	\$ -	\$ 1,607,517
Total capital assets not being depreciated	1,607,517	-	-	1,607,517
Capital assets being depreciated:				
Building	75,390,396	260,705	-	75,651,101
Furniture, fixtures, and equipment:				
Convention Center	5,338,516	344,868	-	5,683,384
Penn Square Condominium Association	516,024	(732)	-	515,292
Office	36,865	-	28,414	8,451
Total capital assets, being depreciated	81,281,801	604,841	28,414	81,858,228
Less accumulated depreciation for:				
Building	20,730,698	1,878,266	-	22,608,964
Furniture, fixtures, and equipment	4,565,090	320,451	28,414	4,857,127
Total accumulated depreciation	25,295,788	2,198,717	28,414	27,466,091
Total capital assets being depreciated, net	55,986,013	(1,593,876)	-	54,392,137
Total capital assets, net	\$ 57,593,530	\$ (1,593,876)	\$ -	\$ 55,999,654

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	Beginning Balance 1/1/2019	Additions	Disposals	Ending Balance 12/31/2019
Capital assets not being depreciated:				
Land	\$ 1,579,621	\$ 27,896	\$ -	\$ 1,607,517
Total capital assets not being depreciated	<u>1,579,621</u>	<u>27,896</u>	<u>-</u>	<u>1,607,517</u>
Capital assets being depreciated:				
Building	75,376,869	13,527	-	75,390,396
Furniture, fixtures, and equipment:				
Convention Center	5,066,419	272,097	-	5,338,516
Penn Square Condominium Association	441,931	74,093	-	516,024
Office	36,865	-	-	36,865
Total capital assets, being depreciated	<u>80,922,084</u>	<u>359,717</u>	<u>-</u>	<u>81,281,801</u>
Less accumulated depreciation for:				
Building	18,824,476	1,906,222	-	20,730,698
Furniture, fixtures, and equipment	4,128,655	436,435	-	4,565,090
Total accumulated depreciation	<u>22,953,131</u>	<u>2,342,657</u>	<u>-</u>	<u>25,295,788</u>
Total capital assets being depreciated, net	<u>57,968,953</u>	<u>(1,982,940)</u>	<u>-</u>	<u>55,986,013</u>
Total capital assets, net	<u>\$ 59,548,574</u>	<u>\$ (1,955,044)</u>	<u>\$ -</u>	<u>\$ 57,593,530</u>

6. Contingency Fee Payable

Per the second amendment to the Joint Development Agreement among the Authority, the RACL, and 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 made the first annual payment in March 2015. The Authority paid PSP \$100,000 and \$50,000 during the years ended December 31, 2020 and 2019, respectively.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

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. 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 London Interbank Offered Rate (LIBOR), and (ii) the Applicable Spread, commencing October 3, 2011.

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. The 2014 Bonds were 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 2014 Bonds debt service payments are guaranteed by the County.

On December 3, 2018, the Authority and the Trustee entered into the First Supplemental Trust Indenture related to the 2014 Bonds. Under the First Supplemental Trust Indenture, the Index for the period December 3, 2018 through and including November 30, 2023 is 80% of LIBOR, and during any other Index Interest Rate period, 80% of LIBOR or such other

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

percentage as may be designated by the Bank. In addition, the Applicable Spread for the period December 3, 2018 through and including November 30, 2023 is 88 basis points provided that the County's bond ratings remains above certain thresholds. Finally, under the First Supplemental Trust Indenture, the mandatory tender date was modified to December 1, 2023.

The amount of outstanding 2014 Bonds at December 31, 2020 and 2019 is \$59,645,000 and \$60,275,000, respectively.

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

<u>Direct Placement</u>					
<u>December 31, 2020</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Bonds payable:					
Series of 2014	<u>\$ 60,275,000</u>	<u>\$ -</u>	<u>\$ (630,000)</u>	<u>\$ 59,645,000</u>	<u>\$ 655,000</u>
<u>December 31, 2019</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Bonds payable:					
Series of 2014	<u>\$ 60,845,000</u>	<u>\$ -</u>	<u>\$ (570,000)</u>	<u>\$ 60,275,000</u>	<u>\$ 630,000</u>

A provision of the terms and conditions of the issuance of the 2014 Bonds allowed for a change in the index rate should the United States corporate tax rate change. Effective January 1, 2018, a decrease in the United States corporate tax rate resulted in an increase in index rate. At December 31, 2020 and 2019, the index rate was 80% of LIBOR plus Applicable Spread, 88 basis points through the mandatory tender date of December 1, 2023.

In accordance with Section 7.02 of the Continuing Covenant Agreement, if an event of default, such as failure to pay principal and interest on bonds when due, and other events defined by Section 7.01 of the Continuing Covenant Agreement, occurs and is continuing, the Bank may 1) by written notice to the Trustee and the Authority, declare the outstanding amount of the bonds to be immediately due and payable; 2) deliver a written notice to the Trustee and Authority that an event of default has occurred and is continuing and direct the Trustee and the Authority to cause a mandatory tender or acceleration of the bonds; 3) by written notice to the Trustee, direct the Trustee to notify the Treasurer of the County (Treasurer) that an event of default has occurred and is continuing and direct the Treasurer

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

to transfer 100% of the hotel tax revenues to the Authority for such period as is necessary to cure the event of default or take such other remedial actions as is provided for in the Indenture; 4) take whatever action at law or in equity may appear necessary to collect the amounts due and payable and to enforce performance or observation of any obligation, agreement, or covenant of the Authority; 5) cure any default, event of default, or even to nonperformance provided however that the bank will have no obligation to effect such a cure; 6) exercise or cause to be exercised any and all remedies available at law and at equity.

The debt service requirements, through the mandatory tender date using the rate in effect as of December 31, 2020, adjusted for the change in the index rate noted above, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 655,000	\$ 601,710	\$ 1,256,710
2022	670,000	595,103	1,265,103
2023	<u>58,320,000</u>	<u>9,911,708</u>	<u>68,231,708</u>
	<u>\$ 59,645,000</u>	<u>\$ 11,108,521</u>	<u>\$ 70,753,521</u>

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

	<u>2020</u>	<u>2019</u>
Interest - bondholders	\$ 839,520	\$ 1,658,789
Interest - interest rate swap counterparty	2,158,495	1,355,456
Amortization of swap borrowing	<u>(661,627)</u>	<u>(661,627)</u>
	<u>\$ 2,336,388</u>	<u>\$ 2,352,618</u>

As further described in Note 8, 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.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

8. 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%.

Pursuant to an amended and restated confirmation between the Authority and the Bank, dated November 27, 2018, the fixed payment rates and the floating rates on the Swap related to the Bonds were amended. Effective December 3, 2018 through the mandatory tender date of December 1, 2023, in conjunction with the Agreement and the First Supplemental Trust Indenture disclosed in Note 7, the synthetic fixed rate on the Swap related to the Series of 2003 Bonds is 4.07%, the synthetic fixed rate on the Swap related to the Series of 2007 Bonds is 3.97%, and the floating rate for both the Series of 2003 Bonds and Series of 2007 Bonds is 80% of the one-month LIBOR. After the mandatory tender date of December 1, 2023, the fixed rate on the Swap related to the Series of 2003 Bonds and Series of 2007 Bonds reverts to 3.67% and 3.57%, respectively. All other terms of the Swap remained the same.

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 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. Effective December 1, 2018, the Authority pays the counterparty a fixed

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

payment of 4.07% related to the applicable notional amounts of the Series of 2003 Bonds and 3.97% 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, 2020, the Authority paid \$1,520,148 and \$949,624 fixed and received \$228,483 and \$146,306 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, 2019, the Authority paid \$1,543,344 and \$949,624 fixed and received \$713,481 and \$450,065 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.

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, 2020 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.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

Notional Amount	January 1, 2020 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2020 - Fair Value
\$ 36,720,000	\$ (11,808,686)	\$ 403,105	\$ (3,331,204)	\$ (14,736,785)
23,920,000	(11,439,171)	258,522	(3,555,250)	(14,735,899)
Total	<u>\$ (23,247,857)</u>	<u>\$ 661,627</u>	<u>\$ (6,886,454)</u>	<u>\$ (29,472,684)</u>

Notional Amount	January 1, 2019 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2019 - Fair Value
\$ 37,350,000	\$ (9,211,737)	\$ 403,105	\$ (3,000,054)	\$ (11,808,686)
23,920,000	(8,517,809)	258,522	(3,179,884)	(11,439,171)
Total	<u>\$ (17,729,546)</u>	<u>\$ 661,627</u>	<u>\$ (6,179,938)</u>	<u>\$ (23,247,857)</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, 2020 and 2019, 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, 2020 and 2019 is reported on the statements of net position as a combination of interest rate swap liability and swap borrowing.

Credit Risk - As of December 31, 2020, 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, 2020, the Bank was rated Aa2 by Moody's, A+ by Standard & Poor's, and AA- by Fitch.

Swap Payments and Associated Debt – Using rates as of December 31, 2020, 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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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
2021	\$ 690,000	\$ 1,452,276
2022	755,000	1,424,987
2023	830,000	1,395,126
2024	900,000	1,231,057
2025	980,000	1,198,898
2026 - 2030	6,245,000	5,406,919
2031 - 2035	8,990,000	4,105,448
2036 - 2040	12,515,000	2,256,439
2041 - 2042	4,815,000	261,439
	<u>\$ 36,720,000</u>	<u>\$ 18,732,589</u>

Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
2021	\$ -	\$ 922,116
2022	-	922,116
2023	-	922,116
2024	-	830,975
2025	-	830,981
2026-2030	-	4,154,899
2031-2035	-	4,154,899
2036-2040	-	4,154,893
2041-2045	14,185,000	3,398,610
2046-2047	9,735,000	549,239
	<u>\$ 23,920,000</u>	<u>\$ 20,840,844</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Subsequent Event – As of February 26, 2021, the fair value of the Authority's interest rate swap was (\$24,493,934).

9. Retirement Plans

Effective September 30, 2016, the Authority sponsors a Savings Incentive Match Plan for Eligible Individual Retirement Account (SIMPLE IRA) plan covering all eligible employees. Contributions are matched by the Authority, dollar for dollar up to 3% of the employee's compensation. Amounts charged to retirement expense totaled \$5,384 and \$7,174 for the years ended December 31, 2020 and 2019, respectively.

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:

	2020	2019
Cash and investments with trustee:		
Debt service reserve fund	\$ 3,935,250	\$ 4,090,532
Bond fund	500,000	531,774
Operating expense fund	695,886	2,340,888
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	5,581,136	7,413,194
Cash held by Authority:		
HRRT depository	2,130	2,130
Construction fund	102	102
Capital replacement fund	1,449,662	1,245,232
Lancaster CRIZ Authority - FF&E reserve	2,559,830	3,027,640
Marketing Consortium funds	907,646	629,574
Total cash and investments held by Authority	4,919,370	4,904,678
Other restricted assets:		
Accounts receivable - Redevelopment Authority of the City of Lancaster	50,000	150,000
	\$ 10,550,506	\$ 12,467,872

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

11. Net Investment in Capital Assets

Net investment in capital assets at December 31 is comprised of the following:

	2020	2019
Net capital assets	\$ 55,999,654	\$ 57,593,530
Debt service reserve fund	3,935,250	4,090,532
Bond fund	500,000	531,774
HRRT depository	2,130	2,130
Construction fund	102	102
Bonds payable	(59,645,000)	(60,275,000)
Contingency fee payable	(350,000)	(450,000)
Total net investment in capital assets	<u>\$ 442,136</u>	<u>\$ 1,493,068</u>

12. Restricted Net Position

Net position is restricted at December 31 as follows:

	2020	2019
Rate stabilization fund	\$ 450,000	\$ 450,000
Operating expense fund	695,886	2,340,888
Capital replacement fund	1,449,662	1,245,232
Marketing Consortium funds	957,646	779,574
Lancaster CRIZ Authority - FF&E reserve	2,559,830	3,027,640
Due to Discover Lancaster	-	(1,347,849)
Total restricted net position	<u>\$ 6,113,024</u>	<u>\$ 6,495,485</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

13. 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.

In early 2020, an outbreak of a novel strain of coronavirus was identified and infections have been found in a number of countries around the world, including the United States. The coronavirus and its associated impacts on supply chains, travel, employee productivity and other economic activities has had, and may continue to have, a material effect on financial markets and economic activity. The extent of the impact of the coronavirus on the Authority's operational and financial performance is currently uncertain and cannot be predicted.

14. Commitments, Contingencies, and Other Restricted Assets

Continuing Covenant Agreement

Under the continuing covenant agreement, as amended, 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.

Collaboration Agreement

As part of the 2014 bond refinancing, the Authority executed a Collaboration Agreement effective July 2014 with other stakeholders in the community.

The participants in the agreement are the County, City, RACL, Lancaster CRIZ Authority, and Discover Lancaster. The Authority achieved a number of objectives as part of the agreement. The primary objectives were refinancing the bonds under more favorable terms, which required a full County guarantee, achieving a reliable source of funds for targeted marketing activities to attract Priority 1 and Priority 2 events, achieving a reliable source of funding for FF&E replacement costs, replenishing the required reserve accounts,

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

and establishing a more reliable flow of funds, especially in the first half of each year due to the seasonal nature of the collection of the hotel room rental tax.

The 2014 Bonds were scheduled for mandatory tender on July 31, 2019. The agreement with Discover Lancaster, which has allowed the Authority to replenish bond and operating reserves as well as expand marketing efforts as discussed below, was also to expire in July 2019. As discussed in Note 2, in October 2018, the agreement with Discover Lancaster was amended to extend the term through December 2023, the modified mandatory tender date.

The City's participation in the Collaboration Agreement encouraged the participation of RACL and the Lancaster CRIZ Authority to make the commitments discussed in the Marketing Consortium (Consortium) and FF&E funding plans.

Part of the agreement called for the creation of a Consortium to perform the target marketing for Priority 1 and Priority 2 events, as defined in the Collaboration Agreement. The term of the Consortium under the agreement is through June 30, 2021.

The funding for the Consortium comes from the following sources over the seven years in the agreement:

	Authority Administrative Budget	Authority 2014 Bond Funds	RACL	Total
2014	\$ 35,000	\$ 132,000	\$ 50,000	\$ 217,000
2015	35,000	145,000	100,000	280,000
2016	35,000	194,000	100,000	329,000
2017	35,000	243,000	100,000	378,000
2018	35,000	292,000	100,000	427,000
2019	35,000	308,000	100,000	443,000
2020	35,000	326,000	100,000	461,000
2021	-	-	50,000	50,000
Total	<u>\$ 245,000</u>	<u>\$ 1,640,000</u>	<u>\$ 700,000</u>	<u>\$ 2,585,000</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Additional Authority funding to perform the target marketing for Priority 1 and Priority 2 events per the October 2018 memorandum of understanding with Discover Lancaster is as follows:

	Authority Administrative Budget	Authority 2014 Bond Funds	Total
2021	\$ 35,000	\$ 382,520	\$ 417,520
2022	35,000	440,170	475,170
2023	35,000	448,974	483,974
Total	<u>\$ 105,000</u>	<u>\$ 1,271,664</u>	<u>\$ 1,376,664</u>

In addition to the funds of the Consortium, the Authority continues to annually budget \$97,000 towards the marketing of priority 1 and priority 2 events.

Of the \$2,556,000 deposited in the Consortium accounts through December 31, 2020, \$1,648,354 had been expended, leaving a balance of \$907,646 of funds as of December 31, 2020, which is included in the restricted cash and investments of the Authority.

The funds received from RACL are recorded as non-operating revenue and the expenses are treated as operating expenses of the Authority.

Additionally, the Collaboration Agreement required the Authority to set aside funding for capital reserves to replace FF&E. As part of the Collaboration Agreement, the Lancaster CRIZ Authority agreed to make annual payments to the Authority to provide for replacement of FF&E within the convention center.

During the year ended December 31, 2015, the Lancaster CRIZ Authority contributed \$1,000,000, which was their 2014 and 2015 commitment under the Collaboration Agreement. During the year ended December 31, 2016, the Lancaster CRIZ Authority contributed \$1,400,000, which was their 2016 and 2017 commitment under the Collaboration Agreement. During the year ended December 31, 2017, the Lancaster CRIZ Authority contributed \$800,000, which was their 2018 commitment under the Collaboration Agreement. During the year ended December 31, 2019, the Lancaster CRIZ Authority contributed \$1,800,000, which was their 2019 and 2020 commitment under the Collaboration agreement.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

The Authority expended \$424,136 and \$366,695 of the Lancaster CRIZ Authority funds during the years ended December 31, 2020 and 2019, respectively. These expenses are initially paid from the Capital Replacement Fund and are subsequently reimbursed from the Lancaster CRIZ Authority account. At December 31, 2020 and 2019, the balance of the restricted Lancaster CRIZ Authority account is \$2,559,830 and \$3,027,640, respectively. At December 31, 2020, \$39,557 was reimbursed from the CRIZ account in excess of eligible expenses. This excess was due to a change in allocation of certain expenses subsequent to the reimbursement being made from the CRIZ account. The excess was reimbursed to the CRIZ account in February 2021. At December 31, 2019, \$9,705 remained to be reimbursed to the Authority's Capital Replacement Fund.

The Lancaster CRIZ Authority has no remaining obligations under the Collaboration agreement as of December 31, 2019.

The Authority is also required under the agreement to make annual contributions to a capital replacement fund. This obligation can be offset by Lancaster CRIZ Authority contributions.

The capital replacement fund is restricted for FF&E. For 2012 through 2014, the Authority made contributions to the capital replacement fund from the bond funds of \$900,000. For 2017 through 2020, the Authority made contributions of \$300,000 each year to the capital replacement fund from the bond funds. The balance in the restricted capital replacement fund is \$1,449,662 and \$1,245,232 as of December 31, 2020 and 2019, respectively.

The 2015 and 2016 obligations were satisfied by the Lancaster CRIZ Authority contributions. Although the intent was to match the Authority obligations with the Lancaster CRIZ Authority obligations, there is not an exact match.

Additional Authority capital replacement fund contributions required under the October 2018 memorandum of understanding with Discover Lancaster are as follows:

2021	\$	1,000,000
2022		1,000,000
2023		1,000,000
Total	\$	<u>3,000,000</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

In preparing the 2021 budget, the Authority has tentatively reduced the amount to contribute to the replacement fund from \$1,000,000 to \$300,000. This change was communicated to Discover Lancaster before the Authority's 2021 Budget was approved in October of 2020, without any decent. No formal action was taken by Discover Lancaster.

The Lancaster CRIZ Authority FF&E reserve fund and the capital replacement fund have separate restrictions regarding what capital items can be purchased with the reserves.

Incentives

The Center offers incentives for certain future events in the form of discounts. The discounts are recognized in the period in which the event is held. At December 31, 2020 and 2019, the Center's commitment to provide incentives was \$80,000 and \$100,000, respectively.

15. Negative Unrestricted Net Position

The Authority's negative unrestricted net position, as shown on the balance sheets as of December 31, 2020 and 2019, 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 its 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 original 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 flow through non-operating revenue/expense.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 fair value of the Authority's interest rate swap was (\$29,472,684), when compared to the December 31, 2019 fair value of (\$23,247,857) for a negative change in valuation of \$6,224,827. All changes (including this \$6,224,827) in the fair value of the Authority's interest rate swap are a reflection of market conditions and payments made under the swap agreement.

SUPPLEMENTARY INFORMATION

lccca.com

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2020

Assets	<u>Authority</u>	<u>Operations</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,837,243	\$ 2,244,924	\$ 4,082,167
Receivables:			
Taxes	554,321	-	554,321
Other	51,119	2,535	53,654
Due from Operations/Due to Authority	907,646	(907,646)	-
Inventory	-	5,770	5,770
Other prepaid expenses	208,960	59,878	268,838
Other asset	-	13,650	13,650
Total current assets	<u>3,559,289</u>	<u>1,419,111</u>	<u>4,978,400</u>
Restricted assets:			
Cash and investments	9,592,860	907,646	10,500,506
Current portion of accounts receivable - Redevelopment Authority of the City of Lancaster	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total restricted assets	<u>9,642,860</u>	<u>907,646</u>	<u>10,550,506</u>
Capital assets:			
Land	1,607,517	-	1,607,517
Building	75,651,101	-	75,651,101
Furniture, fixtures, and equipment:			
Convention Center	5,683,384	-	5,683,384
Penn Square Condominium Association	515,292	-	515,292
Office	<u>8,451</u>	<u>-</u>	<u>8,451</u>
	83,465,745	-	83,465,745
Less: accumulated depreciation	<u>27,466,091</u>	<u>-</u>	<u>27,466,091</u>
Net capital assets	<u>55,999,654</u>	<u>-</u>	<u>55,999,654</u>
Total Assets	<u><u>\$ 69,201,803</u></u>	<u><u>\$ 2,326,757</u></u>	<u><u>\$ 71,528,560</u></u>

(Continued)

Liabilities and Net Position	Authority	Operations	Total
Liabilities:			
Current liabilities:			
Accounts payable	\$ 29,049	\$ 37,523	\$ 66,572
Accrued payroll and payroll expense	2,974	-	2,974
Other accrued expenses	-	206,713	206,713
Due to Interstate Hotels & Resorts	-	43,246	43,246
Current portion of bonds payable	655,000	-	655,000
Unearned revenue	-	130,210	130,210
Contingency fee payable	50,000	-	50,000
Total current liabilities	737,023	417,692	1,154,715
Current liabilities (payable from restricted assets):			
Accrued interest payable	248,769	-	248,769
Total current liabilities (payable from restricted assets)	248,769	-	248,769
Long-term liabilities:			
Reimbursement for contingency payable	300,000	-	300,000
Bonds payable	58,990,000	-	58,990,000
Interest rate swap liability	13,789,710	-	13,789,710
Swap borrowing, net of accumulated amortization of \$6,120,049	15,682,974	-	15,682,974
Total long-term liabilities	88,762,684	-	88,762,684
Total Liabilities	89,748,476	417,692	90,166,168
Net Position:			
Net investment in capital assets	442,136	-	442,136
Restricted	6,113,024	-	6,113,024
Unrestricted	(27,101,833)	1,909,065	(25,192,768)
Total Net Position	(20,546,673)	1,909,065	(18,637,608)
Total Liabilities and Net Position	\$ 69,201,803	\$ 2,326,757	\$ 71,528,560
			(Concluded)

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2020

	Authority	Operations	Total
Operating Revenues:			
Conference services	\$ -	\$ 405,050	\$ 405,050
Concession	-	16,059	16,059
Other	-	5,605	5,605
Total operating revenues	-	426,714	426,714
Operating Expenses:			
Departmental expenses	-	242,760	242,760
Undistributed operating expenses	-	1,201,928	1,201,928
Management fees	-	178,744	178,744
Fixed charges	-	263,232	263,232
Capital/development costs	13,587	-	13,587
Repairs and maintenance	551	-	551
Total operating expenses	14,138	1,886,664	1,900,802
Other Operating Expenses:			
Administrative expenses	343,760	-	343,760
Collaboration Agreement - Marketing Consortium	202,928	-	202,928
Depreciation	2,198,717	-	2,198,717
Total other operating expenses	2,745,405	-	2,745,405
Operating Loss	(2,759,543)	(1,459,950)	(4,219,493)
Non-Operating Revenues (Expenses):			
Hotel room rental tax income	3,801,239	-	3,801,239
Investment income	33,371	-	33,371
Amounts received from the County of Lancaster	3,324,000	-	3,324,000
Other income	5,393	-	5,393
Interest expense, net of amortization of swap borrowing of \$661,627	(2,336,388)	-	(2,336,388)
Change in fair value of interest rate swap	(6,886,455)	-	(6,886,455)
Total non-operating revenues (expenses)	(2,058,840)	-	(2,058,840)
Transfers	(2,514,000)	2,514,000	-
Change in Net Position	(7,332,383)	1,054,050	(6,278,333)
Net Position:			
Beginning of period	(13,214,290)	855,015	(12,359,275)
End of period	<u><u>\$ (20,546,673)</u></u>	<u><u>\$ 1,909,065</u></u>	<u><u>\$ (18,637,608)</u></u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating Expenses:		
Departmental expenses:		
Conference service	\$ 144,026	\$ 828,292
Concession	16,193	159,878
Event management	23,238	87,137
Public space	59,303	114,115
Total departmental expenses	242,760	1,189,422
Undistributed operating expenses:		
Administrative and general	254,382	334,980
Sales and marketing	208,967	324,108
Repairs and maintenance	363,164	535,064
Energy	257,708	379,575
Information technology	80,847	125,034
Miscellaneous	36,860	56,930
Total undistributed operating expenses	1,201,928	1,755,691
Management fees	178,744	217,119
Collaboration Agreement - Marketing Consortium	202,928	370,013
Fixed charges:		
Insurance	61,835	77,996
Operating supplies and equipment	6,419	3,802
Other	-	1,863
PPE non-capitalizable expenses	194,978	-
Total fixed charges	263,232	83,661
Administrative expenses:		
Solicitor fees and expense	9,474	17,625
Historic properties repairs	2,726	15,799
Renovation and minor equipment	8,999	29,207
Employee compensation	174,902	245,805
Executive director expenses, employee mileage and travel	619	6,702
Payroll taxes	12,383	18,199
Employee benefits	38,114	54,105
Office supplies and expense	1,099	1,165
Internet and computer service	11,044	10,985
Accounting fees	35,654	22,635
Business advisory fees	17,225	16,975
Insurance	18,106	17,499
Telephone expense	2,296	2,229
Advertising notices	-	484
Miscellaneous expense	11,119	7,532
Total administrative expenses	343,760	466,946

(Continued)

**LANCASTER COUNTY CONVENTION
CENTER AUTHORITY**

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2020 AND 2019
(Continued)

	<u>2020</u>	<u>2019</u>
Depreciation	<u>2,198,717</u>	<u>2,342,657</u>
Capital/development costs:		
Accounting	7,587	6,344
Trustee fees	<u>6,000</u>	<u>6,000</u>
Total capital/development costs	<u>13,587</u>	<u>12,344</u>
Repairs and maintenance	<u>551</u>	<u>31,933</u>
Total operating expenses	<u><u>\$ 4,646,207</u></u>	<u><u>\$ 6,469,786</u></u>

(Concluded)