Lancaster County Convention Center Authority

Financial Statements with Supplementary Information

Years Ended December 31, 2013 and 2012
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2013 AND 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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 the 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 the purpose 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
August 4, 2014

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 1,568,320	$ 1,580,768
Receivables:		
Taxes	713,318	529,375
Other	65,469	15,994
Due from Interstate Hotels & Resorts	14,870	26,881
Inventory	5,878	11,067
Other prepaid expenses	36,675	40,925
Total current assets	2,404,530	2,205,010
Restricted assets:		
Cash and investments	5,658,311	5,624,248
Total restricted assets	5,658,311	5,624,248
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	37,411	37,411
	81,150,829	81,150,829
Less: accumulated depreciation	11,124,129	8,705,505
Net capital assets	70,026,700	72,445,324
Other assets:		
Interest rate swap asset	7,714,454	-
Bond issuance costs (See Note 13)	-	-
Total other assets	7,714,454	-
Total Assets	$ 85,803,995	$ 80,274,582

(Continued)

	2013	2012
Liabilities and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable	$ 20,857	$ 47,930
Accrued payroll and payroll expense	5,822	4,307
Arbitrage payable	-	73,061
Other accrued expenses	214,411	239,242
Current portion of note payable	400,000	350,000
Unearned revenue	72,135	39,651
Developer's fee payable	34,800	34,800
Total current liabilities	748,025	788,991
Current liabilities (payable from restricted assets):		
Accrued interest payable	292,931	290,270
Total current liabilities (payable from restricted assets)	292,931	290,270
Long-term liabilities:		
Reimbursement for contingency payable	705,245	705,245
Developer's fee payable	-	34,800
Bonds payable	63,590,000	63,590,000
Note payable	-	400,000
Interest rate swap liability	-	2,667,740
Swap borrowing, net of accumulated amortization of $1,488,660 and $827,033	20,314,363	20,975,990
Total long-term liabilities	84,609,608	88,373,775
Total Liabilities	85,650,564	89,453,036
Net Position:		
Net investment in capital assets	10,383,966	12,748,366
Restricted	971,000	956,361
Unrestricted	(11,201,535)	(22,883,181)
Total Net Position	153,431	(9,178,454)
Total Liabilities and Net Position	$ 85,803,995	$ 80,274,582

(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, 2013 AND 2012

	2013	2012
Operating Revenues:		
Conference services	$ 1,660,273	$ 1,492,657
Concession	210,822	121,688
Other	8,610	30,700
Total operating revenues	1,879,705	1,645,045
Operating Expenses:		
Departmental expenses	789,333	670,166
Undistributed operating expenses	1,600,090	1,439,024
Management fees	178,405	195,000
Fixed charges	81,090	92,325
Administrative expenses	379,997	394,245
Depreciation	2,418,624	2,424,529
Capital/development costs	40,182	31,079
Total operating expenses	5,487,721	5,246,368
Operating Loss	(3,608,016)	(3,601,323)
Non-Operating Revenues (Expenses):		
Hotel room rental tax income	5,098,578	4,795,310
Investment income (net of arbitrage rebate)	293,793	146,191
Other income	4,345	3,665
Interest expense, net of amortization of swap borrowing of $661,627 and $661,627	(2,839,009)	(2,773,533)
Change in fair value of interest rate swap	10,382,194	518,939
Total non-operating revenues (expenses)	12,939,901	2,690,572
Change in Net Position	9,331,885	(910,751)
Net Position:		
Beginning of period, restated	(9,178,454)	(8,267,703)
End of period	$ 153,431	$ (9,178,454)

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Operating receipts	$ 1,862,714	$ 1,651,466
Payments to suppliers for operating expenses	(2,865,688)	(2,504,205)
Payments to suppliers for project development costs	(40,182)	(31,079)
Payments to employees	(192,166)	(184,969)
Net cash used in operating activities	(1,235,322)	(1,068,787)
Cash Flows From Capital and Related Financial Activities:		
Purchase of capital assets	-	(62,377)
Payments of developer's fee	(34,800)	(34,800)
Principal payments on note payable	(350,000)	-
Receipts from hotel room revenue tax	4,918,980	4,828,089
Released from restrictions	-	521,835
Interest expense paid	(3,497,975)	(3,397,827)
Restricted for capital replacement	(300,250)	-
Net cash provided by capital and related financing activities	735,955	1,854,920
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	11,825,291	11,349,540
Purchase of investments	(11,559,104)	(11,393,453)
Interest income received	220,732	219,252
Net cash provided by investing activities	486,919	175,339
Net Increase (Decrease) in Cash and Cash Equivalents	(12,448)	961,472
Cash and Cash Equivalents:		
Beginning of period	1,580,768	619,296
End of period	$ 1,568,320	$ 1,580,768

(Continued)

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012
(Continued)

	2013	2012
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	$ (3,608,016)	$ (3,601,323)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,418,624	2,424,529
(Increase) decrease in:		
Other receivables	(49,475)	1,876
Due from Interstate Hotels & Resorts	12,011	11,085
Inventory	5,189	(554)
Other prepaid expenses	4,250	16,907
Increase (decrease) in:		
Accounts payable	(27,073)	16,508
Accrued payroll and payroll expenses	1,515	37
Other accrued expenses	(24,831)	57,603
Unearned revenue	32,484	4,545
Total adjustments	2,372,694	2,532,536
Net cash used in operating activities	$ (1,235,322)	$ (1,068,787)

(Concluded)

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

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 and construction and to run the operation of a convention center facility 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 the entity or (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the 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 a period commencing with the opening of the convention center and expiring on June 19, 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. 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 represented by 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, 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 government 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.

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.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with current year presentation.

Adoption of Governmental Accounting Standards Board (GASB) Statement

The Authority has adopted GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* This Statement reclassified certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the beginning net position of the Authority for the year ended December 31, 2012 has been restated to eliminate certain bond issuance costs from assets. Bond issuance costs previously were expensed over the life of the bonds. Under Statement No. 65, bond issuance costs, excluding bond insurance, are fully expensed in the year of issuance. See Note 14 for the restatement of net position.

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% is allocated to the Pennsylvania Dutch Convention and Visitors Bureau (PDCVB) to be used to promote tourism in the County, and 80% is received by the Authority to be used for construction and operation of the convention center facility. Should the Authority encounter 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 is recognized in the period to which the County attributes collection.

As discussed in Note 12, during the years ended December 31, 2013 and 2012, 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 Bonds and recognized as additional revenue for the months of April 2013 through December 2013 and April 2012 through December 2012, respectively.

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.

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, 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. As of December 31, 2012, the book balance of the Authority was $1,782,898 and the bank balance was $1,583,592. At December 31, 2012, the book balance included $202,130 and the bank balance included $202,130 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 covered by federal depository insurance at December 31, 2013 and 2012. At December 31, 2013 and 2012, 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:

	2013	2012
Money market funds	$ 1,044,802	$ 1,310,989
Guaranteed investment contracts	4,111,129	4,111,129
	$ 5,155,931	$ 5,422,118

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.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2013 and 2012, more than five percent of the Authority's investments are held as follows:

December 31, 2013	Contract Value	% of Total	Yield
Guaranteed investment contracts:			
Citigroup Financial Product	$ 4,111,129	79.74%	5.315%

December 31, 2012	Contract Value	% of Total	Yield
Guaranteed investment contracts:			
Citigroup Financial Product	$ 4,111,129	75.82%	5.315%

On July 29, 2014, the Authority terminated the Reserve Fund Investment Agreement (Agreement) related to the guaranteed investment contracts, in connection with the Bonds. As a result of the termination, the Authority received $818,000.

Credit Risk – The Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2013 and 2012, the Authority's investment in money market funds were rated AAAm by Standard & Poor's. As of December 31, 2013 and 2012, the guaranteed investment contracts were unrated.

In February 2009, pursuant to an agreement between the Authority and Citigroup Financial Products, Inc. (Citigroup), Citigroup entered into a custodial agreement with Manufacturers and Traders Trust Company, as Trustee, and The Bank of New York Mellon, as collateral agent for the Trustee, to hold investments, consisting of U.S. government direct obligations and U.S. agencies, for the purpose of collateralizing the Authority's guaranteed investment contract.

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. The following is a list of the Authority's investments and their related average maturities:

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

December 31, 2012	Fair/ Contract Value	Investment Maturity	
		2013	2022
Money market funds	$ 1,310,989	$ 1,310,989	$ -
Guaranteed investment contracts	4,111,129	-	4,111,129
Total	$ 5,422,118	$ 1,310,989	$ 4,111,129

5. CAPITAL ASSETS

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

	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

	Beginning Balance 1/1/2012	Additions	Disposals	Adjustments	Ending Balance 12/31/2012
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	75,059,135	19,922	-	(677)	75,078,380
Furniture, fixtures, and equipment:					
Convention Center	4,047,916	3,177	-	-	4,051,093
Penn Square Condominium Association	399,184	5,140	-	-	404,324
Office	37,411	-	-	-	37,411
Total capital assets, being depreciated	79,543,646	28,239	-	(677)	79,571,208
Less accumulated depreciation for:					
Building	5,055,891	1,963,568	-	-	7,019,459
Furniture, fixtures, and equipment	1,225,085	460,961	-	-	1,686,046
Total accumulated depreciation	6,280,976	2,424,529	-	-	8,705,505
Total capital assets being depreciated, net	73,262,670	(2,396,290)	-	(677)	70,865,703
Total capital assets, net	$ 74,842,291	$ (2,396,290)	$ -	$ (677)	$ 72,445,324

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, $34,800 during the years ended December 31, 2013, 2012, and 2011, and is to make the final payment of $34,800 during the year ending December 31, 2014.

Per the second amendment to the Joint Development Agreement among the Authority, the Redevelopment Authority of the City of Lancaster (RACL), and Penn Square Partners (PSP), the Authority is to pay $705,245 to PSP to reimburse the RACL/PSP contingency provided under the agreement. RACL/PSP agree 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.

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 are 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 has 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 will be held by the Bank until the mandatory purchase date of March 1, 2013, at which time the Bonds are 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 may 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.

Under the Agreement, the interest rate was converted from the Weekly Rate to the Index Interest Rate. The Bonds will 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 can be reduced if the Authority is able to accomplish certain milestones as set forth in the Agreement. At December 31, 2013 and 2012, the Index Interest Rate on the Series of 2003 Bonds was 1.864 and 1.891 percent, respectively. At December 31, 2013 and 2012, the Index Interest Rate on the Series of 2007 Bonds was 2.014 percent and 2.041 percent, respectively.

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.

The amount of outstanding Hotel Room Rental Tax Revenue Bonds, Series of 2003 and Series of 2007 at December 31, 2013 and 2012 is $63,590,000 and $63,590,000, respectively. The Series of 2003 will amortize from December 1, 2015 through December 1, 2042. The Series of 2007 will amortize from December 1, 2015 through December 1, 2047.

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

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	$ 63,590,000	$ -	$ -	$ 63,590,000	$ -

December 31, 2012	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	$ 63,590,000	$ -	$ -	$ 63,590,000	$ -

Debt service requirements, including interest at the rates in effect under the Swap agreement, including the Applicable Spread, through the July 31, 2014 remarketing date, as of December 31, 2013, are as follows:

	Principal	Interest	Total
2014	$ 63,590,000	$ 2,017,480	$ 65,607,480

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 fee received from the termination of the Agreement, 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 payments due on the Bonds. Because the Authority converted the Bonds into a non-cancelable long-term obligation and no principal payments are due on the 2014 Bonds until 2015, principal maturities as of December 31, 2013 reflect all outstanding principal as long-term.

The principal maturities of the 2014 Bonds are as follows:

2015	$ 370,000
2016	410,000
2017	460,000
2018	510,000
2019-2023	3,195,000
2024-2028	4,625,000
2029-2033	7,800,000
2034-2038	11,035,000
2039-2043	17,345,000
2044-2047	16,845,000
	$ 62,595,000

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

	2013	2012
Letter of credit fees	$ -	$ 5,804
Note payable	25,832	28,948
Interest - variable rate (net)	1,247,459	1,194,776
Interest rate - fixed rate	2,227,345	2,205,632
Amortization of swap borrowing	(661,627)	(661,627)
	$ 2,839,009	$ 2,773,533

As further described in Note 9, the Authority entered into a pay fixed, receive variable interest rate swap to synthetically fix the variable rate on the Series of 2003 Bonds and Series of 2007 Bonds to 3.67% and 3.57% plus the Applicable Spread, respectively, at December 31, 2013 and 2012.

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 is secured by a pledge of all current and future revenue derived by the Authority from its share of hotel room rental tax. Interest is 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:

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

December 31, 2012	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Note payable	$ 750,000	$ -	$ -	$ 750,000	$ 350,000

Future principal and interest payments under the note are as follows:

	Principal	Interest	Total
2014	$ 400,000	$ 12,833	$ 412,833

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 Bonds and the related 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, is 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 decrease through maturing principal. The Swap agreements were entered into at the same time the Bonds were issued, 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 Series of 2003 Bonds and 3.57% related to the Series of 2007 Bonds. Conversely, the Bonds' variable-rate is based on the Index Interest Rate as defined in Note 7.

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, 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 Series of 2003 Bonds and Series of 2007 Bonds, respectively. For the year ended December 31, 2012, the Authority paid $1,390,884 and $814,748 fixed and received

$56,028 and $33,784 variable with respect to the Swap on the Series of 2003 Bonds and 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, 2013 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, 2013 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value Subsequent to Termination	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	$ (23,643,730)	$ 661,627	$ 10,382,194	$ (12,599,909)

Notional Amount	January 1, 2012 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value Subsequent to Termination	December 31, 2012 - Fair Value
$ 39,670,000	$ (14,035,249)	$ 403,105	$ 50,533	$ (13,581,611)
23,920,000	(10,789,047)	258,522	468,406	(10,062,119)
Total	$ (24,824,296)	$ 661,627	$ 518,939	$ (23,643,730)

Subsequent Event – As of July 31, 2014, the Swap had negative fair values of $9,792,892 and $7,365,389 for the Series of 2003 Bonds and Series of 2007 Bonds, respectively.

Accounting and Risk Disclosures - As previously noted, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2013 and 2012, 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, 2013 and 2012 is reported on the statements of net position as a combination of interest rate swap asset/liability and swap borrowing.

Credit Risk - As of December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013, debt service requirements of the Series of 2003 Bonds and Series of 2007 Bonds and net Swap payments, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows. As these rates vary, interest payments on the Series of 2003 Bonds and Series of 2007 Bonds and net payments under the Swap agreements will vary:

Fiscal Year	Series of 2003, Hotel Room Rental Tax Revenue Bonds			
Ending December 31,	Principal	Interest	Swap Agreement Payments, Net	Total
2014	$ 39,670,000	$ 430,888	$ 823,345	$ 40,924,233

Fiscal Year	Series of 2007, Hotel Room Rental Tax Revenue Bonds			
Ending December 31,	Principal	Interest	Swap Agreement Payments, Net	Total
2014	$ 23,920,000	$ 280,744	$ 482,503	$ 24,683,247

10. RESTRICTED ASSETS

The restricted assets represent funds held at the Trustee Bank 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:

	2013	2012
Cash and investments with trustee:		
Debt service reserve fund	$ 4,185,181	$ 4,165,757
Bond fund	500,000	500,000
Operating expense fund	20,750	306,361
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	5,155,931	5,422,118
Cash and investments held by Authority:		
HRRT depository	2,130	2,130
Capital replacement fund	500,250	200,000
Total restricted assets	$ 5,658,311	$ 5,624,248

11. 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.

12. 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, 2013 and 2012, the Authority failed to meet this liquidity covenant for the quarters ending March 31, June 30, September 30, and December 31, 2013 and March 31, June 30, and September 30, 2012. 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 for the months of February 2013 through December 2013, which was received in April 2013 through February 2014 and February 2012 through October 2012, which was received in April 2012 through December 2012. With the execution of the Authority's Hotel Room Rental Tax Revenue Bonds, Series of 2014 (Series 2014 Bonds) issuance, with a five-year term with the Bank, and the execution of the Collaboration Agreement (see Note 15), prior events of default and defaults are waived.

13. NEGATIVE UNRESTRICTED NET POSITION

The Authority's negative unrestricted net position, as shown on the statements of net position as of December 31, 2013 and 2012, 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. The $21,803,023 liability is being amortized over the life of the 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.

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.

14. NET POSITION RESTATEMENT

The Authority adopted GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* This Statement reclassified certain items previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the beginning net position of the Authority has been restated to eliminate certain bond issuance costs from assets. Bond issuance costs previously were expensed over the life of the bonds. The standard requires that accounting changes to conform with the provisions of this statement should be applied retroactively. As such, net position as of December 31, 2011 was restated to comply with the provision of this statement as follows:

Total Net Position, December 31, 2011	$	(6,884,139)
Bond issuance costs		(1,383,564)
Total Net Position, December 31, 2011, restated	$	(8,267,703)

In addition, as a result of the elimination of the bond issuance costs, the change in net position for the year ended December 31, 2012 was restated by $49,573 for the removal of the amortization of the bond issuance costs.

15. SUBSEQUENT EVENT

On July 29, 2014, the Authority terminated the Agreement related to the guaranteed investment contracts discussed in Note 4, in connection with the Bonds. As a result of the termination, the Authority received $818,000.

On August 1, 2014, the Authority issued the 2014 Bonds in the amount of $62,595,000 to refund the Authority's outstanding Bonds. The 2014 Bonds are subject to mandatory tender July 31, 2019. The bonds will 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.

The fee received from the termination of the Agreement, 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 payments 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.

On July 31, 2014, the Authority entered into a Collaboration Agreement with County, RACL, Lancaster City Revitalization and Improvement Zone Authority (CRIZ), and PDCVB. The Authority's responsibilities under the Collaboration Agreement relate to marketing activities and maintenance of appropriate reserves for FF&E. The City of Lancaster has provided a deficiency guaranty of funding towards these obligations in an amount not to exceed $2 million in total for the period of 2014 through 2020.

Supplementary Information

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating Expenses:		
Departmental expenses:		
Conference service	$ 490,870	$ 421,562
Concession	145,474	97,663
Event management	60,480	53,856
Public space	92,509	97,085
Total departmental expenses	789,333	670,166
Undistributed operating expenses:		
Administrative and general	301,922	327,136
Sales and marketing	383,516	297,855
Repairs and maintenance	420,208	387,382
Energy	452,896	391,223
Miscellaneous	41,548	35,428
Total undistributed operating expenses	1,600,090	1,439,024
Management fees	178,405	195,000
Fixed charges:		
Insurance	72,607	72,948
Furniture, fixtures, and equipment	8,483	19,377
Total fixed charges	81,090	92,325
Administrative expenses:		
Solicitor fees and expense	23,190	5,621
Property management	45,622	18,021
Employee compensation	193,681	185,006
Executive director expenses, employee mileage, and travel	986	2,361
Payroll taxes	14,813	14,048
Employee benefits	31,406	26,697
Office supplies and expense	2,525	2,998
Internet and computer service	9,681	7,695
Accounting fees	28,311	36,836
Business advisory fees	1,600	8,263
Operational consultant	-	56,679
Insurance	21,939	21,971
Telephone expense	2,040	2,040
Advertising notices	396	471
Miscellaneous expense	3,807	5,538
Total administrative expenses	379,997	394,245

(Continued)

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2013 AND 2012
(Continued)

	2013	2012
Depreciation	2,418,624	2,424,529
Capital/development costs:		
Accounting	28,282	19,179
Trustee fees	11,900	11,900
Total capital/development costs	40,182	31,079
Total operating expenses	$ 5,487,721	$ 5,246,368

(Concluded)