

**Lancaster County Convention  
Center Authority**

**Financial Statements with  
Supplementary Information**

**Years Ended December 31, 2015 and 2014  
with Independent Auditor's Report**

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information on pages 28 and 29 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 31, 2016

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

| Assets                               | 2015                 | 2014                 |
|--------------------------------------|----------------------|----------------------|
| Current assets:                      |                      |                      |
| Cash and cash equivalents            | \$ 1,807,854         | \$ 1,658,438         |
| Receivables:                         |                      |                      |
| Taxes                                | 834,860              | 782,762              |
| Other                                | 54,425               | 40,139               |
| Due from Interstate Hotels & Resorts | 18,068               | 40,978               |
| Inventory                            | 5,938                | 8,838                |
| Other prepaid expenses               | 60,043               | 52,949               |
| Total current assets                 | 2,781,188            | 2,584,104            |
| Restricted assets:                   |                      |                      |
| Cash and investments                 | 8,166,509            | 6,091,031            |
| Total restricted assets              | 8,166,509            | 6,091,031            |
| Capital assets:                      |                      |                      |
| Land                                 | 1,579,621            | 1,579,621            |
| Building                             | 75,113,954           | 75,078,380           |
| Furniture, fixtures, and equipment:  |                      |                      |
| Convention Center                    | 4,118,490            | 4,051,093            |
| Penn Square Condominium Association  | 441,931              | 404,324              |
| Office                               | 36,865               | 36,865               |
|                                      | 81,290,861           | 81,150,283           |
| Less: accumulated depreciation       | 15,926,158           | 13,525,721           |
| Net capital assets                   | 65,364,703           | 67,624,562           |
| <b>Total Assets</b>                  | <b>\$ 76,312,400</b> | <b>\$ 76,299,697</b> |

(Continued)

| <b>Liabilities and Net Position</b>   | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|
| <b>Liabilities:</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$ 36,482            | \$ 15,106            |
| Accrued payroll and payroll expense   | 7,667                | 6,804                |
| Other accrued expenses  | 238,015              | 256,858              |
| Current portion of bonds payable  | 410,000              | 370,000              |
| Unearned revenue  | 120,035              | 65,590               |
| Contingency fee payable   | 50,000               | 50,000               |
| Total current liabilities   | <u>862,199</u>       | <u>764,358</u>       |
| Current liabilities (payable from restricted assets):                             |                      |                      |
| Accrued interest payable  | 236,567              | 234,566              |
| Total current liabilities (payable from restricted assets)                        | <u>236,567</u>       | <u>234,566</u>       |
| Long-term liabilities:  |                      |                      |
| Reimbursement for contingency payable   | 600,000              | 650,000              |
| Bonds payable   | 61,815,000           | 62,225,000           |
| Interest rate swap liability  | 4,095,988            | 2,584,554            |
| Swap borrowing, net of accumulated amortization of<br>\$2,811,914 and \$2,150,287 | <u>18,991,109</u>    | <u>19,652,736</u>    |
| Total long-term liabilities   | <u>85,502,097</u>    | <u>85,112,290</u>    |
| Total Liabilities   | <u>86,600,863</u>    | <u>86,111,214</u>    |
| <b>Net Position:</b>  |                      |                      |
| Net investment in capital assets  | 6,930,766            | 8,771,592            |
| Restricted  | 3,725,446            | 1,649,001            |
| Unrestricted  | <u>(20,944,675)</u>  | <u>(20,232,110)</u>  |
| Total Net Position  | <u>(10,288,463)</u>  | <u>(9,811,517)</u>   |
| <b>Total Liabilities and Net Position</b>   | <u>\$ 76,312,400</u> | <u>\$ 76,299,697</u> |
|   |                      | (Concluded)          |

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

|   | 2015            | 2014           |
|---|-----------------|----------------|
| <b>Operating Revenues:</b>  |                 |                |
| Conference services   | \$ 1,853,536    | \$ 1,674,888   |
| Concession  | 181,990         | 210,751        |
| Other   | 11,919          | 17,995         |
| Total operating revenues  | 2,047,445       | 1,903,634      |
| <b>Operating Expenses:</b>  |                 |                |
| Departmental expenses   | 780,914         | 755,715        |
| Undistributed operating expenses  | 1,744,006       | 1,630,035      |
| Management fees   | 182,510         | 181,238        |
| Collaboration Agreement - Marketing Consortium  | 156,186         | 3,004          |
| Fixed charges   | 87,301          | 84,575         |
| Administrative expenses   | 463,240         | 380,283        |
| Depreciation  | 2,400,437       | 2,404,745      |
| Capital/development costs   | 6,797           | 29,020         |
| Total operating expenses  | 5,821,391       | 5,468,615      |
| <b>Operating Loss</b>   | (3,773,946)     | (3,564,981)    |
| <b>Non-Operating Revenues (Expenses):</b>   |                 |                |
| Hotel room rental tax income  | 5,825,503       | 5,563,285      |
| Investment income   | 5,106           | 129,894        |
| Collaboration agreement:  |                 |                |
| Marketing Consortium funding  | 100,000         | 50,000         |
| FF&E funding  | 1,000,000       | -              |
| Other income  | 6,210           | 4,336          |
| Loss on sale of asset   | -               | (963)          |
| Interest expense, net of amortization of swap borrowing of<br>\$661,627 and \$661,627 | (2,128,385)     | (2,665,511)    |
| Change in fair value of interest rate swap  | (1,511,434)     | (10,299,008)   |
| Total non-operating revenues (expenses)   | 3,297,000       | (7,217,967)    |
| <b>Change in Net Position before Special Item</b>                                     | (476,946)       | (10,782,948)   |
| <b>Special Item:</b>  |                 |                |
| Gain on investment contract termination   | -               | 818,000        |
| <b>Change in Net Position</b>   | (476,946)       | (9,964,948)    |
| <b>Net Position:</b>  |                 |                |
| Beginning of period   | (9,811,517)     | 153,431        |
| End of period   | \$ (10,288,463) | \$ (9,811,517) |

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

|  | 2015         | 2014         |
|--|--------------|--------------|
| <b>Cash Flows From Operating Activities:</b>                     |              |              |
| Operating receipts   | \$ 2,037,604 | \$ 1,917,174 |
| Payments to suppliers for operating expenses                     | (3,174,081)  | (2,845,390)  |
| Payments to suppliers for project development costs              | (6,797)      | (29,020)     |
| Payments to employees  | (217,964)    | (197,124)    |
| Net cash used in operating activities                            | (1,361,238)  | (1,154,360)  |
| <b>Cash Flows From Noncapital Financing Activities:</b>          |              |              |
| Marketing Consortium contribution                                | 100,000      | 50,000       |
| <b>Cash Flows From Capital and Related Financing Activities:</b> |              |              |
| Purchase of capital assets                                       | (140,578)    | (3,570)      |
| Payments of developer's fee                                      | -            | (34,800)     |
| Principal payments on note payable                               | -            | (400,000)    |
| Principal payments on bonds payable                              | (370,000)    | (63,590,000) |
| Proceeds from issuance of debt                                   | -            | 62,595,000   |
| Receipts from hotel room revenue tax                             | 5,773,405    | 5,493,841    |
| Collaboration Agreement - FF&E funding                           | 1,000,000    | -            |
| Other receipts   | 6,210        | 4,336        |
| Interest expense paid  | (2,788,011)  | (3,385,503)  |
| Restricted for capital replacement                               | (1,074,377)  | (618,758)    |
| Net cash provided by capital and related financing activities    | 2,406,649    | 60,546       |
| <b>Cash Flows From Investing Activities:</b>                     |              |              |
| Proceeds from the sale of investments                            | 10,549,168   | 85,232,471   |
| Purchase of investments  | (11,550,269) | (85,046,433) |
| Proceeds from termination of investment contract                 | -            | 818,000      |
| Interest income received   | 5,106        | 129,894      |
| Net cash provided by (used in) investing activities              | (995,995)    | 1,133,932    |
| <b>Net Increase in Cash and Cash Equivalents</b>                 | 149,416      | 90,118       |
| <b>Cash and Cash Equivalents:</b>                                |              |              |
| Beginning of period  | 1,658,438    | 1,568,320    |
| End of period  | \$ 1,807,854 | \$ 1,658,438 |

(Continued)



# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

(Continued)

|   | 2015           | 2014           |
|---|----------------|----------------|
| <b>Reconciliation of Operating Loss to Net Cash<br/>Used in Operating Activities:</b> |                |                |
| Operating loss  | \$ (3,773,946) | \$ (3,564,981) |
| Adjustments to reconcile operating loss to<br>net cash used in operating activities:  |                |                |
| Depreciation  | 2,400,437      | 2,404,745      |
| (Increase) decrease in:   |                |                |
| Other receivables   | (14,286)       | 25,330         |
| Due from Interstate Hotels & Resorts  | 22,910         | (26,108)       |
| Inventory   | 2,900          | (2,960)        |
| Other prepaid expenses  | (7,094)        | (16,274)       |
| Increase (decrease) in:   |                |                |
| Accounts payable  | 21,376         | (5,751)        |
| Accrued payroll and payroll expenses  | 863            | 982            |
| Contingency payable   | (50,000)       | (5,245)        |
| Other accrued expenses  | (18,843)       | 42,447         |
| Unearned revenue  | 54,445         | (6,545)        |
| Total adjustments   | 2,412,708      | 2,410,621      |
| Net cash used in operating activities   | \$ (1,361,238) | \$ (1,154,360) |
|   |                | (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, 2015 AND 2014

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### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

The Authority is part of the County's reporting entity based on the above criteria. These are the separate component unit financial statements of the Authority. No other entities 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 and the Lancaster Marriott at Penn Square. The plan was the result of a complex and cooperative effort among government and community leaders and public and private partners. Throughout 2007 – 2009, the Authority incurred construction costs associated with the project.

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

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

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Penn Square Partners (PSP) and the Authority agreed to a letter of intent in March 2015, in which the Authority agreed to permit the new Marriot Tower to be included into the Penn Square Condominium Association should the PSP project come to fruition.

### Basis of Accounting

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

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

The Authority is a member of the Penn Square Condominium Association, which is comprised of two ownership groups. The other ownership group is 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.

### 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.

### 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

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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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 | 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.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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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 expenses, undistributed operating expenses, management fees, Collaboration Agreement – Marketing Consortium, fixed charges, administration expense, 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.

### Reclassification

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

### Pending Changes in Accounting Principles

In February of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, "*Fair Value Measurement and Application*." This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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of GASB Statement No. 72 are effective for the Authority's December 31, 2016 financial statements.

In June of 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This Statement identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment. The provisions of GASB Statement No. 76 are effective for the Authority's December 31, 2016 financial statements.

The effect of implementation of these Statements has not yet been determined.

## 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 (PDCVB)) to be used to promote tourism in the County, and 80% was received by the Authority to be used for construction and operation of the convention center facility. If the Authority encountered an event of default on the Hotel Room Rental Tax Revenue Bonds, Series of 2003 or the Hotel Room Rental Tax Revenue Bonds, Series of 2007 (collectively, the Bonds), the 20% allocated to 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 13, during the year ended December 31, 2014, the Authority failed to meet certain financial covenants of the Bonds. As a result, the 20% of hotel room rental tax allocated to Discover Lancaster was diverted to the trustee of the Authority's Bonds and recognized as additional revenue for the months of January 2014 through June 2014.

As discussed in Note 13, Discover Lancaster, the County, the City of Lancaster (City), the Redevelopment Authority 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. Beginning in July 2019, the terms of the

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Lancaster County Ordinance No. 45 shall again govern the distribution of the hotel room rental tax revenue.

### 3. LEASE AGREEMENT – LANCASTERHISTORY.ORG

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

### 4. DEPOSITS AND INVESTMENTS

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

#### 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, 2015, the book balance of the Authority was \$7,942,303 and the bank balance was \$8,074,121. At December 31, 2015, the book balance included \$6,134,449 and the bank balance included \$6,160,952 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2014, the book balance of the Authority was \$6,715,221 and the bank balance was \$6,494,989. At December 31, 2014, the book balance included \$5,056,783 and the bank balance included \$5,059,787 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$750,000 and \$750,000 was covered by federal depository insurance at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the remainder of the bank balance was

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### Investments

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

|                    | <u>2015</u>         | <u>2014</u>         |
|--------------------|---------------------|---------------------|
| Money market funds | <u>\$ 2,032,060</u> | <u>\$ 1,034,248</u> |

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

*Concentration of Credit Risk* - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2015 and 2014, there were no investments held by the Authority that exceeded five percent of the Authority's portfolio.

*Credit Risk* – The Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2015 and 2014, the Authority's investment in money market funds was 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, 2015 and 2014, 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, 2015 AND 2014

### 5. CAPITAL ASSETS

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

|   | Beginning<br>Balance<br>1/1/2015 | Additions             | Disposals   | Ending<br>Balance<br>12/31/2015 |
|---|----------------------------------|-----------------------|-------------|---------------------------------|
| Capital assets not being depreciated:       |                                  |                       |             |                                 |
| Land  | \$ 1,579,621                     | \$ -                  | \$ -        | \$ 1,579,621                    |
| Total capital assets not being depreciated  | <u>1,579,621</u>                 | <u>-</u>              | <u>-</u>    | <u>1,579,621</u>                |
| Capital assets being depreciated:           |                                  |                       |             |                                 |
| Building                                    | 75,078,380                       | 35,574                | -           | 75,113,954                      |
| Furniture, fixtures, and equipment:         |                                  |                       |             |                                 |
| Convention Center                           | 4,051,093                        | 67,397                | -           | 4,118,490                       |
| Penn Square Condominium Association         | 404,324                          | 37,607                | -           | 441,931                         |
| Office                                      | 36,865                           | -                     | -           | 36,865                          |
| Total capital assets, being depreciated     | <u>79,570,662</u>                | <u>140,578</u>        | <u>-</u>    | <u>79,711,240</u>               |
| Less accumulated depreciation for:          |                                  |                       |             |                                 |
| Building                                    | 10,947,244                       | 1,963,965             | -           | 12,911,209                      |
| Furniture, fixtures, and equipment          | <u>2,578,477</u>                 | <u>436,472</u>        | <u>-</u>    | <u>3,014,949</u>                |
| Total accumulated depreciation              | <u>13,525,721</u>                | <u>2,400,437</u>      | <u>-</u>    | <u>15,926,158</u>               |
| Total capital assets being depreciated, net | <u>66,044,941</u>                | <u>(2,259,859)</u>    | <u>-</u>    | <u>63,785,082</u>               |
| Total capital assets, net                   | <u>\$ 67,624,562</u>             | <u>\$ (2,259,859)</u> | <u>\$ -</u> | <u>\$ 65,364,703</u>            |

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

### 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 is to make annual payments of \$50,000 beginning March 15, 2015. The Authority paid PSP \$50,000 during the year ended December 31, 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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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necessary reserves for the project and the Bonds; (iii) the establishment of necessary reserves and other funds under the Indenture; (iv) payment of the costs and expenses of issuance of the Bonds; and (v) refunding certain outstanding indebtedness of the Issuer. The Bonds were secured by a pledge of all current and future revenue derived by the Authority from its share of hotel room rental tax and all monies and investments held by Trustee Bank under the Indenture and are initially secured by an irrevocable, direct pay letter of credit issued by Wachovia Bank, National Association.

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

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

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

The Bank extended the mandatory purchase date related to the Bonds to August 1, 2014. All other provisions of the Agreement remained 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 were to bear interest at a per annum rate of interest equal to the sum of (i) the Index, defined as 67% of LIBOR, and (ii) the Applicable Spread, commencing October 3, 2011. The Applicable Spread effective from October 3, 2011 through February 28, 2012 was defined as 95 basis points on the Series of 2003 Bonds and 125 basis points on the Series of 2007 Bonds. Effective March 1, 2012, the Applicable Spread increased to 175 basis points on the Series of 2003 Bonds and 190 basis points on the Series of 2007 Bonds. The Applicable Spread could be reduced if the Authority was able to accomplish certain

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

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milestones as set forth in the Agreement. At the option of the Authority, the Bonds could have been optionally redeemed or converted to another interest rate mode to be effective on the interest payment date prior to the mandatory purchase date upon 60 days written notice to the Bank.

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

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

The amount of outstanding 2014 Bonds at December 31, 2015 and 2014 is \$62,225,000 and \$62,595,000, respectively.

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

| December 31, 2015 | Beginning of<br>Year | Additions | Retirements  | End of<br>Year | Current<br>Portion |
|-------------------|----------------------|-----------|--------------|----------------|--------------------|
| Bonds payable:    |                      |           |              |                |                    |
| Series of 2014    | \$ 62,595,000        | \$ -      | \$ (370,000) | \$ 62,225,000  | \$ 410,000         |

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

The debt service requirements, through the mandatory tender date at the rate in effect as of December 31, 2015, are as follows:

|      | Principal            | Interest            | Total                |
|------|----------------------|---------------------|----------------------|
| 2016 | \$ 410,000           | \$ 622,456          | \$ 1,032,456         |
| 2017 | 460,000              | 618,310             | 1,078,310            |
| 2018 | 510,000              | 613,665             | 1,123,665            |
| 2019 | 60,845,000           | 558,237             | 61,403,237           |
|      | <u>\$ 62,225,000</u> | <u>\$ 2,412,668</u> | <u>\$ 64,637,668</u> |

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

|                                | 2015                | 2014                |
|--------------------------------|---------------------|---------------------|
| Note payable                   | \$ -                | \$ 12,989           |
| Bond refunding closing costs   | -                   | 129,117             |
| Interest - variable rate (net) | 562,588             | 942,276             |
| Interest rate - fixed rate     | 2,227,424           | 2,242,756           |
| Amortization of swap borrowing | (661,627)           | (661,627)           |
|                                | <u>\$ 2,128,385</u> | <u>\$ 2,665,511</u> |

As further described in Note 9, the Authority entered into a pay fixed, receive variable interest rate swap on the applicable notional amounts of the Series of 2003 Bonds and Series of 2007 Bonds to 3.67% and 3.57%, respectively, at December 31, 2015 and 2014.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 8. NOTE PAYABLE

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

Note payable activity for the year ended December 31, 2014 was as follows:

| Beginning of<br>Year | Additions | Retirements  | End of<br>Year | Current<br>Portion |
|----------------------|-----------|--------------|----------------|--------------------|
| \$ 400,000           | \$ -      | \$ (400,000) | \$ -           | \$ -               |

### 9. DERIVATIVES – INTEREST RATE SWAP

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

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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Authority pays the counterparty a fixed payment of 3.67% related to the applicable notional amounts of the Series of 2003 Bonds and 3.57% related to the applicable notional amounts of the Series of 2007 Bonds.

Pursuant to the Swap agreements, the Authority pays or receives to/from the counterparty a monthly net swap payment. For the year ended December 31, 2015, the Authority paid \$1,404,074 and \$823,350 fixed and received \$95,185 and \$57,439 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, 2014, the Authority paid \$1,414,045 and \$828,711 fixed and received \$43,457 and \$26,203 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively.

*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, 2015 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

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

| Notional<br>Amount | January 1,<br>2015 -<br>Fair<br>Value | Amortization<br>of Swap<br>Borrowing | Change in<br>Fair Value | December 31,<br>2015 -<br>Fair<br>Value |
|--------------------|---------------------------------------|--------------------------------------|-------------------------|---|
| \$ 39,670,000      | \$ (12,288,751)                       | \$ 403,105                           | \$ (668,533)            | \$ (12,554,179)                         |
| 23,920,000         | (9,948,539)                           | 258,522                              | (842,901)               | (10,532,918)                            |
| Total              | <u>\$ (22,237,290)</u>                | <u>\$ 661,627</u>                    | <u>\$ (1,511,434)</u>   | <u>\$ (23,087,097)</u>                  |

  

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

*Accounting and Risk Disclosures* - As previously noted, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2015 and 2014, 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, 2015 and 2014 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, 2015 and 2014, 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, 2015, the Bank was rated Aa2 by Moody's, AA- by Standard & Poor's, and AA by Fitch. At December 31, 2014, 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, 2015, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows. As these rates vary, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds will vary:



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| Fiscal Year<br>Ending<br>December 31, | Series of 2003, Hotel Room Rental<br>Tax Revenue Bonds |                                 |
|---------------------------------------|--|---------------------------------|
|                                       | Notional<br>Amount                                     | Swap Agreement<br>Payments, Net |
|                                       | 2016   | \$ 410,000                      |
| 2017                                  | 460,000  | 1,332,562                       |
| 2018                                  | 510,000  | 1,316,642                       |
| 2019                                  | 570,000  | 1,298,979                       |
| 2020                                  | 630,000  | 1,279,256                       |
| 2021 - 2025                           | 4,155,000  | 6,025,213                       |
| 2026 - 2030                           | 6,245,000  | 5,171,031                       |
| 2031 - 2035                           | 8,990,000  | 3,914,198                       |
| 2036 - 2040                           | 12,515,000   | 2,129,681                       |
| 2041 - 2042                           | 4,815,000  | 237,131                         |
|                                       | \$ 39,300,000  | \$ 24,051,461                   |

| Fiscal Year<br>Ending<br>December 31, | Series of 2007, Hotel Room Rental<br>Tax Revenue Bonds |                                 |
|---------------------------------------|--|---------------------------------|
|                                       | Notional<br>Amount                                     | Swap Agreement<br>Payments, Net |
|                                       | 2016   | \$ -                            |
| 2017                                  | -  | 796,505                         |
| 2018                                  | -  | 796,505                         |
| 2019                                  | -  | 796,505                         |
| 2020                                  | -  | 796,505                         |
| 2021 - 2025                           | -  | 3,982,525                       |
| 2026 - 2030                           | -  | 3,982,525                       |
| 2031 - 2035                           | -  | 3,982,525                       |
| 2036 - 2040                           | -  | 3,982,525                       |
| 2041 - 2045                           | 14,185,000   | 3,218,252                       |
| 2046 - 2047                           | 9,735,000  | 499,443                         |
|                                       | \$ 23,920,000  | \$ 23,630,320                   |

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## NOTES TO FINANCIAL STATEMENTS

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*Subsequent Event* – As of February 29, 2016, the fair value of the Authority’s interest rate swap was (\$28,419,819).

### 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:

|   | 2015         | 2014         |
|---|--------------|--------------|
| Cash and investments with trustee:      |              |              |
| Debt service reserve fund               | \$ 3,938,933 | \$ 3,935,645 |
| Bond fund                               | 500,000      | 500,000      |
| Operating expense fund                  | 1,082,061    | 84,248       |
| Rate stabilization fund                 | 450,000      | 450,000      |
| Total cash and investments with trustee | 5,970,994    | 4,969,893    |
| Cash and investments held by Authority: |              |              |
| HRRT depository                         | 2,130        | 2,130        |
| Construction fund                       | -            | 4,255        |
| Capital replacement fund                | 901,643      | 900,757      |
| Lancaster CRIZ Authority - FF&E reserve | 953,932      | -            |
| Marketing Consortium funds              | 337,810      | 213,996      |
| Total restricted assets                 | \$ 8,166,509 | \$ 6,091,031 |

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

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### 11. RESTRICTED NET POSITION

Net position is restricted at December 31 as follows:

|   | 2015                | 2014                |
|---|---------------------|---------------------|
| Rate stabilization fund                 | \$ 450,000          | \$ 450,000          |
| Operating expense fund                  | 1,082,061           | 84,248              |
| Capital replacement fund                | 901,643             | 900,757             |
| Marketing Consortium funds              | 337,810             | 213,996             |
| Lancaster CRIZ Authority - FF&E reserve | 953,932             | -                   |
| Total restricted net position           | <u>\$ 3,725,446</u> | <u>\$ 1,649,001</u> |

### 12. RISK MANAGEMENT

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

### 13. COMMITMENTS AND CONTINGENCIES

#### Continuing Covenant Agreement

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 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, 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.

As more fully described in Note 7, a significant cost reduction occurred in the cost associated with the bonds as a result of the refinancing.

The 2014 Bonds are currently 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, is currently also set to expire in July 2019, as discussed in Note 2 pertaining to the hotel room rental tax. 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.

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

|       | Authority<br>Administrative<br>Budget | Authority<br>2014<br>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> |

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 \$497,000 deposited in the Consortium accounts through December 31, 2015, \$159,190 had been expended, leaving a balance of \$337,810 of funds as of December 31, 2015, that 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.

The Lancaster CRIZ Authority contributed \$1,000,000 which was their 2014 and 2015 commitment under the Collaboration Agreement. The \$1,000,000 was recorded as non-operating revenue during the year ended December 31, 2015.

The Authority expended \$46,068 of the Lancaster CRIZ Authority funds during the year ended December 31, 2015, bringing the balance in the restricted account to \$953,932 as of December 31, 2015.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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The Lancaster CRIZ Authority paid their 2016 obligation of \$700,000 in January of 2016. The remaining unfunded obligations of the Lancaster CRIZ Authority are as follows:

|       |    |                  |
|-------|----|------------------|
| 2017  | \$ | 700,000          |
| 2018  |    | 800,000          |
| 2019  |    | 900,000          |
| 2020  |    | <u>900,000</u>   |
| Total | \$ | <u>3,300,000</u> |

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.

For 2012 through 2014, the Authority made contributions to the capital replacement fund from the bond funds of \$900,000. The balance in the restricted capital replacement fund is \$901,643 as of December 31, 2015.

The capital replacement fund is restricted to be used for FF&E. The 2015 obligation was satisfied by the Lancaster CRIZ Authority contribution and the 2016 obligation was satisfied by the Lancaster CRIZ Authority in January 2016. Although the intent was to match the Authority obligations with the Lancaster CRIZ Authority obligations, there is not an exact match.

The remaining capital replacement fund contribution requirements under the Collaboration Agreement are as follows:

|       |    |                  |
|-------|----|------------------|
| 2017  | \$ | 800,000          |
| 2018  |    | 900,000          |
| 2019  |    | 900,000          |
| 2020  |    | <u>900,000</u>   |
| Total | \$ | <u>3,500,000</u> |

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.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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### 14. NEGATIVE UNRESTRICTED NET POSITION

The Authority's negative unrestricted net position, as shown on the statements of net position as of December 31, 2015 and 2014, is due to a GASB requirement for governmental entities to terminate hedge accounting when a termination event has occurred on a derivative instrument (interest rate swap). A termination event occurs when a significant change in a critical term of an interest rate swap is made.

On October 3, 2011, the Authority, as a part of its bond restructuring, modified terms to their existing interest rate swap agreement. These changes were deemed significant and, according to GASB standards, the interest rate swap agreement was terminated and a new interest rate swap agreement was put in place. The mark-to-market value at the time of termination was \$21,803,023, which was included in the statement of revenues, expenses, and change in net position as a special item during the year ended December 31, 2011, and is presented on the statements of net position as a swap borrowing, net of accumulated amortization. The \$21,803,023 liability is being amortized over the 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 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.

The December 31, 2015 fair value of the Authority's interest rate swap was (\$23,087,097), when compared to the December 31, 2014 fair value of (\$22,237,290) for a negative change in valuation of \$849,807. All change (including this \$849,807) in the fair value of the Authority's interest rate swap is a reflection of market conditions.

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**Supplementary Information**

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

|  | 2015       | 2014       |
|--|------------|------------|
| <b><u>Operating Expenses:</u></b>                            |            |            |
| Departmental expenses:                                       |            |            |
| Conference service   | \$ 496,771 | \$ 462,766 |
| Concession   | 122,904    | 146,614    |
| Event management   | 77,681     | 64,342     |
| Public space   | 83,558     | 81,993     |
| Total departmental expenses                                  | 780,914    | 755,715    |
| Undistributed operating expenses:                            |            |            |
| Administrative and general                                   | 348,657    | 333,893    |
| Sales and marketing  | 301,471    | 325,652    |
| Repairs and maintenance                                      | 470,546    | 457,741    |
| Energy   | 490,384    | 470,787    |
| Information technology                                       | 86,699     | -          |
| Miscellaneous  | 46,249     | 41,962     |
| Total undistributed operating expenses                       | 1,744,006  | 1,630,035  |
| Management fees  | 182,510    | 181,238    |
| Collaboration Agreement - Marketing Consortium               | 156,186    | 3,004      |
| Fixed charges:   |            |            |
| Insurance  | 73,314     | 73,759     |
| Operating supplies and equipment                             | 13,987     | 10,816     |
| Total fixed charges  | 87,301     | 84,575     |
| Administrative expenses:                                     |            |            |
| Solicitor fees and expense                                   | 14,862     | 8,308      |
| Repairs/historic properties                                  | 94,074     | 32,755     |
| Employee compensation  | 218,827    | 198,106    |
| Executive director expenses, employee mileage,<br>and travel | 4,376      | 2,581      |
| Payroll taxes  | 15,040     | 14,233     |
| Employee benefits  | 34,101     | 33,547     |
| Office supplies and expense                                  | 2,332      | 2,849      |
| Internet and computer service                                | 7,177      | 9,469      |
| Accounting fees  | 29,801     | 28,413     |
| Business advisory fees                                       | 7,219      | 19,900     |
| Insurance  | 22,685     | 22,694     |
| Telephone expense  | 1,870      | 2,040      |
| Advertising notices  | 905        | 665        |
| Miscellaneous expense  | 9,971      | 4,723      |
| Total administrative expenses                                | 463,240    | 380,283    |

(Continued)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**SCHEDULE OF EXPENSES**

YEARS ENDED DECEMBER 31, 2015 AND 2014

(Continued)

|                                 | <u>2015</u>         | <u>2014</u>         |
|---------------------------------|---------------------|---------------------|
| Depreciation                    | 2,400,437           | 2,404,745           |
| Capital/development costs:      |                     |                     |
| Accounting                      | 797                 | 17,120              |
| Trustee fees                    | 6,000               | 11,900              |
| Total capital/development costs | <u>6,797</u>        | <u>29,020</u>       |
| Total operating expenses        | <u>\$ 5,821,391</u> | <u>\$ 5,468,615</u> |

(Concluded)