

**Lancaster County Convention
Center Authority**

Financial Statements with
Supplementary Information

Years Ended December 31, 2021 and 2020
with Independent Auditor's Report

MaherDuessel

A horizontal bar is positioned below the company name. The left portion of the bar is black, and the right portion is blue, matching the color of the 'D' in the company name.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

**Board of Directors
Lancaster County Convention
Center Authority**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2021 and 2020, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's

ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit 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 24, 2022

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,759,436	\$ 4,082,167
Receivables:		
Taxes	1,215,821	554,321
Other	74,666	53,654
Inventory	10,417	5,770
Prepaid expenses	151,569	268,838
Other asset	13,650	13,650
Total current assets	4,225,559	4,978,400
Restricted assets:		
Cash and investments	12,822,583	10,500,506
Current portion of accounts receivable - Redevelopment Authority of the City of Lancaster	-	50,000
Total restricted assets	12,822,583	10,550,506
Capital assets:		
Land	1,607,517	1,607,517
Building	76,293,976	75,651,101
Furniture, fixtures, and equipment:		
Convention Center	5,814,495	5,683,384
Penn Square Condominium Association	515,292	515,292
Office	8,451	8,451
	84,239,731	83,465,745
Less: accumulated depreciation	29,858,107	27,466,091
Net capital assets	54,381,624	55,999,654
Total Assets	\$ 71,429,766	\$ 71,528,560

(Continued)

Liabilities and Net Position	<u>2021</u>	<u>2020</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 71,357	\$ 66,572
Accrued payroll and payroll expense	4,233	2,974
Other accrued expenses	230,486	206,713
Due to Interstate Hotels & Resorts	23,445	43,246
Current portion of bonds payable	670,000	655,000
Unearned revenue	127,577	130,210
Contingency fee payable	50,000	50,000
Total current liabilities	<u>1,177,098</u>	<u>1,154,715</u>
Current liabilities (payable from restricted assets):		
Accrued interest payable	248,154	248,769
Due to Discover Lancaster	1,412,861	-
Total current liabilities (payable from restricted assets)	<u>1,661,015</u>	<u>248,769</u>
Long-term liabilities:		
Reimbursement for contingency payable	300,000	300,000
Bonds payable	58,320,000	58,990,000
Interest rate swap liability	9,172,186	13,789,710
Swap borrowing, net of accumulated amortization of \$6,781,676 and \$6,120,049	15,021,347	15,682,974
Total long-term liabilities	<u>82,813,533</u>	<u>88,762,684</u>
Total Liabilities	<u>85,651,646</u>	<u>90,166,168</u>
Net Position:		
Net investment in capital assets	(520,002)	442,136
Restricted	6,971,348	6,113,024
Unrestricted	(20,673,226)	(25,192,768)
Total Net Position	<u>(14,221,880)</u>	<u>(18,637,608)</u>
Total Liabilities and Net Position	<u><u>\$ 71,429,766</u></u>	<u><u>\$ 71,528,560</u></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, 2021 AND 2020

	2021	2020
Operating Revenues:		
Conference services	\$ 1,030,026	\$ 405,050
Concession	99,160	16,059
Other	21,695	5,605
Total operating revenues	1,150,881	426,714
Operating Expenses:		
Departmental expenses	553,464	242,760
Undistributed operating expenses	1,481,175	1,201,928
Management fees	226,559	178,744
Fixed charges	72,138	263,232
Capital/development costs	14,043	13,587
Repairs and maintenance	-	551
Total operating expenses	2,347,379	1,900,802
Other Operating Expenses:		
Administrative expenses	370,003	343,760
Collaboration Agreement - Marketing Consortium	251,770	202,928
Depreciation	2,392,016	2,198,717
Total other operating expenses	3,013,789	2,745,405
Operating Loss	(4,210,287)	(4,219,493)
Non-Operating Revenues (Expenses):		
Hotel room rental tax income, net of \$1,421,861 and \$0 as required by the Collaboration Agreement	6,312,944	3,801,239
Investment income	4,498	33,371
Amounts received from the County of Lancaster	-	3,324,000
Other income	4,287	5,393
Interest expense, net of amortization of swap borrowings of \$661,627 and \$661,627	(2,313,238)	(2,336,388)
Change in fair value of interest rate swap	4,617,524	(6,886,455)
Total non-operating revenues (expenses)	8,626,015	(2,058,840)
Change in Net Position	4,415,728	(6,278,333)
Net Position:		
Beginning of period	(18,637,608)	(12,359,275)
End of period	\$(14,221,880)	\$(18,637,608)

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities:		
Operating receipts	\$ 1,127,236	\$ 287,065
Payments to suppliers for operating expenses	(2,840,720)	(2,694,421)
Payments to suppliers for project development costs	(14,043)	(13,587)
Payments to employees	(186,124)	(179,771)
Net cash used in operating activities	(1,913,651)	(2,600,714)
Cash Flows From Noncapital Financing Activities:		
Marketing Consortium contribution	50,000	100,000
Cash Flows From Capital and Related Financing Activities:		
Purchase of capital assets	(579,613)	(604,841)
Principal payments on bonds payable	(655,000)	(630,000)
Receipts from hotel room rental tax	7,064,305	4,383,942
Payment to Discover Lancaster	-	(1,347,849)
Amounts received from the County of Lancaster	-	3,324,000
Other receipts	4,287	5,393
Interest expense paid	(2,975,480)	(2,999,564)
Net withdrawals from accounts restricted for capital replacement	(677,052)	(14,692)
Net cash provided by capital and related financing activities	2,181,447	2,116,389
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	12,055,074	16,987,315
Purchase of investments	(13,700,099)	(15,155,258)
Interest income received	4,498	33,371
Net cash provided by (used in) investing activities	(1,640,527)	1,865,428
Net Increase (Decrease) in Cash and Cash Equivalents	(1,322,731)	1,481,103
Cash and Cash Equivalents		
Beginning of period	4,082,167	2,601,064
End of period	\$ 2,759,436	\$ 4,082,167

(Continued)

**LANCASTER COUNTY CONVENTION
CENTER AUTHORITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

(Continued)

	2021	2020
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (4,210,287)	\$ (4,219,493)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,392,016	2,198,717
(Increase) decrease in:		
Other receivables	(21,012)	93,253
Inventory	(4,647)	12,273
Other prepaid expenses	(77,104)	(192,094)
Other asset	-	(13,650)
Increase (decrease) in:		
Accounts payable	4,785	33,832
Accrued payroll and payroll expenses	1,259	(4,869)
Contingency fee payable	-	(100,000)
Other accrued expenses	23,773	(171,448)
Due to Interstate Hotels & Resorts	(19,801)	(104,333)
Unearned revenue	(2,633)	(132,902)
Total adjustments	2,296,636	1,618,779
Net cash used in operating activities	\$ (1,913,651)	\$ (2,600,714)
		(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, 2021 AND 2020

1. Significant Accounting Policies

Reporting Entity

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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

Basis of Accounting

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

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Authority measures and reports all assets, liabilities, revenues, expense, gains, and losses using the economic resources measurement focus and accrual basis of accounting.

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

Cash and Cash Equivalents

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Investments

The Authority accounts for investments at fair value. The fair value of the Authority's investments is based upon values provided by external investment managers and quoted market prices.

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

Restricted Assets

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

Capital Assets

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

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

Buildings	40 years
Furniture, fixtures, and equipment	3-10 years

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Unearned Revenue

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

Net Position

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

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

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

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

Use of Estimates

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

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Operating Revenues and Expenses

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues and expenses from operations include departmental operating revenues, departmental operating expenses, undistributed operating expenses, management and incentive fees, Collaboration Agreement – Marketing Consortium, fixed charges, administrative expenses, and depreciation. The principal operating revenues of the Authority is conference services revenue. The principal operating expenses include energy, repairs and maintenance, conference services, 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.

2. Hotel Room Rental Tax

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

As discussed in Note 14, Discover Lancaster, the County, the City of Lancaster (City), the Redevelopment Authority of the City of Lancaster (RACL), the Lancaster City Revitalization and Improvement Zone Authority (Lancaster CRIZ Authority), and the Authority entered into a Collaboration Agreement. Under the Collaboration Agreement, Discover Lancaster agreed to direct 100% of the hotel room rental tax revenue to the Authority for the period

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

July 2014 through June 2019. As of December 31, 2016, and each December 31 thereafter, if the Authority's funds on deposit with the trustee under the terms of the indenture exceed \$5,750,000 after all obligations have been paid, the Authority shall remit the lesser of any funds in excess of \$5,750,000 or 20% of the year's hotel room rental tax revenue by January 15 of the following year to Discover Lancaster.

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

At December 31, 2021, the Authority's funds on deposit exceeded the established thresholds, and \$1,412,861 of the hotel room rental tax revenue was payable to Discover Lancaster under the terms of the Collaboration Agreement. At December 31, 2020, the Authority's funds on deposit did not exceed the established thresholds, and no hotel room rental tax revenue was payable to Discover Lancaster under the terms of the Collaboration Agreement.

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.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

4. Deposits and Investments

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. government obligations, short term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes allow the pooling of governmental funds for investment purposes.

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk.

As of December 31, 2021, the book balance of the Authority was \$8,355,858 and the bank balance was \$8,205,742. At December 31, 2021, the book balance included \$5,596,422 and the bank balance included \$5,209,959 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2020, the book balance of the Authority was \$9,001,537 and the bank balance was \$7,549,421. At December 31, 2020, the book balance included \$4,919,370 and the bank balance included \$4,994,209 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$500,000 was covered by federal depository insurance at December 31, 2021 and 2020. At December 31, 2021 and 2020, the remainder of the bank balance was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

Investments

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

	2021	2020
Money market funds	<u>\$ 7,226,161</u>	<u>\$ 5,581,136</u>

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YEARS ENDED DECEMBER 31, 2021 AND 2020

Custodial Credit Risk – Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the Authority will not recover the value of the investment or collateral securities that are in possession of an outside party. The Authority does not have a formal policy for custodial credit risk. The Authority's investments in money market funds are not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

Concentration of Credit Risk - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2021 and 2020, there were no investments held by the Authority that were subject to concentration of credit risk.

Credit Risk – With the exception of investments held in the debt service reserve fund, the Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2021 and 2020, the Authority's investments in money market funds were rated AAAM by Standard & Poor's.

Interest Rate Risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2021 and 2020, 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, 2021 AND 2020

5. Capital Assets

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

	Beginning Balance 1/1/2021	Additions/ Adjustments	Disposals/ Adjustments	Ending Balance 12/31/2021
Capital assets not being depreciated:				
Land	\$ 1,607,517	\$ -	\$ -	\$ 1,607,517
Total capital assets not being depreciated	<u>1,607,517</u>	<u>-</u>	<u>-</u>	<u>1,607,517</u>
Capital assets being depreciated:				
Building	75,651,101	642,875	-	76,293,976
Furniture, fixtures, and equipment:				
Convention Center	5,683,384	131,111	-	5,814,495
Penn Square Condominium Association	515,292	-	-	515,292
Office	8,451	-	-	8,451
Total capital assets, being depreciated	<u>81,858,228</u>	<u>773,986</u>	<u>-</u>	<u>82,632,214</u>
Less accumulated depreciation for:				
Building	22,608,964	2,000,362	-	24,609,326
Furniture, fixtures, and equipment	4,857,127	391,654	-	5,248,781
Total accumulated depreciation	<u>27,466,091</u>	<u>2,392,016</u>	<u>-</u>	<u>29,858,107</u>
Total capital assets being depreciated, net	<u>54,392,137</u>	<u>(1,618,030)</u>	<u>-</u>	<u>52,774,107</u>
Total capital assets, net	<u>\$ 55,999,654</u>	<u>\$ (1,618,030)</u>	<u>\$ -</u>	<u>\$ 54,381,624</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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 agreement requires fourteen annual payments of \$50,000 beginning in March 2015. The Authority paid PSP \$0 and \$100,000 during the years ending December 31, 2021 and 2020, respectively.

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

7. Bonds Payable

On August 1, 2014, the Authority's Hotel Room Rental Tax Bonds, Series 2003 (\$40,000,000) (Series of 2003 Bonds) and Hotel Room and Rental Tax Bonds, Series of 2007 (\$23,920,000) (Series of 2007 Bonds), (collectively the Bonds) were refunded through the issuance of the Hotel Room Rental Tax Revenue Bonds, Series of 2014 (2014 Bonds) in the amount of \$62,595,000.

The 2014 Bonds 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.

A provision of the terms and conditions of the issuance of the 2014 Bonds allowed for a change in the index rate should the United States corporate tax rate change. Effective January 1, 2018, a decrease in the United States corporate tax rate resulted in an increase in index rate.

On December 3, 2018, the Authority and the Trustee entered into the First Supplemental Trust Indenture related to the 2014 Bonds. Under the First Supplemental Trust Indenture, the Index for the period December 3, 2018 through and including November 30, 2023 is 80% of LIBOR, and during any other Index Interest Rate period, 80% of LIBOR or such other percentage as may be designated by the Bank. In addition, under the First Supplemental Trust Indenture, the mandatory tender date was modified to December 1, 2023. At December 31, 2021 and 2020, the index rate was 80% of LIBOR plus Applicable Spread, 88 basis points through the mandatory tender date of December 1, 2023 provided that the County's bond ratings remain above certain thresholds.

The amount of outstanding 2014 Bonds at December 31, 2021 and 2020 is \$58,990,000 and \$59,645,000, respectively.

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YEARS ENDED DECEMBER 31, 2021 AND 2020

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

<u>Direct Placement</u>					
<u>December 31, 2021</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Bonds payable:					
Series of 2014	\$ 59,645,000	\$ -	\$ (655,000)	\$ 58,990,000	\$ 670,000

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

In accordance with Section 7.02 of the Continuing Covenant Agreement, if an event of default, such as failure to pay principal and interest on bonds when due, and other events defined by Section 7.01 of the Continuing Covenant Agreement, occurs and is continuing, the Bank may 1) by written notice to the Trustee and the Authority, declare the outstanding amount of the bonds to be immediately due and payable; 2) deliver a written notice to the Trustee and Authority that an event of default has occurred and is continuing and direct the Trustee and the Authority to cause a mandatory tender or acceleration of the bonds; 3) by written notice to the Trustee, direct the Trustee to notify the Treasurer of the County (Treasurer) that an event of default has occurred and is continuing and direct the Treasurer to transfer 100% of the hotel tax revenues to the Authority for such period as is necessary to cure the event of default or take such other remedial actions as is provided for in the Indenture; 4) take whatever action at law or in equity may appear necessary to collect the amounts due and payable and to enforce performance or observation of any obligation, agreement, or covenant of the Authority; 5) cure any default, event of default, or even to nonperformance provided however that the bank will have no obligation to effect such a cure; 6) exercise or cause to be exercised any and all remedies available at law and at equity.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

The debt service requirements, through the mandatory tender date using the rate in effect as of December 31, 2021, adjusted for the change in the index rate noted above, are as follows:

	Principal	Interest	Total
2022	\$ 670,000	\$ 574,767	\$ 1,244,767
2023	58,320,000	9,573,016	67,893,016
	\$ 58,990,000	\$ 10,147,783	\$ 69,137,783

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

	2021	2020
Interest - bondholders	\$ 579,230	\$ 839,520
Interest - interest rate swap counterparty	2,395,635	2,158,495
Amortization of swap borrowing	(661,627)	(661,627)
	\$ 2,313,238	\$ 2,336,388

As further described in Note 8, the Authority entered into a pay fixed, receive variable interest rate swap on the applicable notional amounts of the Series of 2003 Bonds and Series of 2007 Bonds.

8. Derivatives – Interest Rate Swap

Objective - As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in March 2007, the Authority entered into an interest-rate swap (Swap) in connection with Hotel Room Rental Tax Revenue Bonds, Series 2003 (\$40,000,000) (Series 2003 Bonds), and Hotel Room Rental Tax Revenue Bonds, Series of 2007 (\$23,920,000) (Series of 2007 Bonds), (collectively, the Series 2003 and 2007 Bonds). The intention of the Swap was effectively to change the Authority's variable interest rate on the Series of 2003 and 2007 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.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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 and amended in September 2011. The Authority pays the counterparty a fixed payment related to the applicable notional amounts of the bonds and receives a computed variable payment.

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

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, 2021, the Authority paid \$1,494,504 and \$949,624 fixed and received \$32,398 and \$21,105 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, 2020, the Authority paid \$1,520,148 and \$949,624 fixed and received \$228,483 and \$146,306 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively.

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

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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, 2021 and the termination value fluctuates as the interest rates fluctuate.

Due to a 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 swap is as follows:

Notional Amount	January 1, 2021 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2021 - Fair Value
\$ 36,030,000	\$ (14,736,785)	\$ 403,105	\$ 2,565,091	\$ (11,768,589)
23,920,000	(14,735,899)	258,522	2,052,433	(12,424,944)
Total	<u>\$ (29,472,684)</u>	<u>\$ 661,627</u>	<u>\$ 4,617,524</u>	<u>\$ (24,193,533)</u>

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

Accounting and Risk Disclosures - As previously noted, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2021 and 2020, current period changes in fair value for the Swap are accounted for as an investment and are

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YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 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, 2021, the Authority's Swap agreements were not exposed to credit risk, because the Swaps 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, 2021, the Bank was rated Aa2 by Moody's, A+ by Standard & Poor's, and AA- by Fitch.

Swap Payments and Associated Debt – Using rates as of December 31, 2021, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows.

As these rates vary, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds will vary:

Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
2022	\$ 755,000	\$ 1,437,267
2023	830,000	1,407,120
2024	900,000	1,240,703
2025	980,000	1,208,291
2026	1,065,000	1,172,991
2027-2031	6,735,000	5,224,336
2032-2036	9,635,000	3,813,791
2037-2041	12,630,000	1,823,331
2042	2,500,000	90,050
	\$ 36,030,000	\$ 17,417,880

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
	2022	\$ -
2023	-	930,249
2024	-	837,675
2025	-	837,678
2026	-	837,678
2027-2031	-	4,188,388
2032-2036	-	4,188,384
2037-2041	370,000	4,188,388
2042-2046	17,475,000	2,929,246
2047	6,075,000	212,747
	\$ 23,920,000	\$ 20,080,682

Subsequent Event - As of February 28, 2022, the fair value of the Authority's interest rate swap was (\$21,509,778).

9. Retirement Plans

Effective September 30, 2016, the Authority sponsors a Savings Incentive Match Plan for Eligible Individual Retirement Account (SIMPLE IRA) plan covering all eligible employees. Contributions are matched by the Authority, dollar for dollar up to 3% of the employee's compensation. Amounts charged to retirement expense totaled \$5,504 and \$5,384 for the years ended December 31, 2021 and 2020, respectively.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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:

	2021	2020
Cash and investments with trustee:		
Debt service reserve fund	\$ 3,936,142	\$ 3,935,250
Bond fund	500,000	500,000
Operating expense fund	2,340,019	695,886
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	7,226,161	5,581,136
Cash held by Authority:		
HRRT depository	2,130	2,130
Construction fund	102	102
Capital replacement fund	1,869,788	1,449,662
Lancaster CRIZ Authority - FF&E reserve	2,601,006	2,559,830
Marketing Consortium funds	1,123,396	907,646
Total cash and investments held by Authority	5,596,422	4,919,370
Other restricted assets:		
Accounts receivable - Redevelopment Authority of the City of Lancaster	-	50,000
	\$ 12,822,583	\$ 10,550,506

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11. Net Investment in Capital Assets

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

	2021	2020
Net capital assets	\$ 54,381,624	\$ 55,999,654
Debt service reserve fund	3,936,142	3,935,250
Bond fund	500,000	500,000
HRRT depository	2,130	2,130
Construction fund	102	102
Bonds payable	(58,990,000)	(59,645,000)
Contingency fee payable	(350,000)	(350,000)
Total net investment in capital assets	\$ (520,002)	\$ 442,136

12. Restricted Net Position

Net position is restricted at December 31 as follows:

	2021	2020
Rate stabilization fund	\$ 450,000	\$ 450,000
Operating expense fund	2,340,019	695,866
Capital replacement fund	1,869,788	1,449,662
Marketing Consortium funds	1,123,396	957,646
Lancaster CRIZ Authority - FF&E reserve	2,601,006	2,559,830
Due to Discover Lancaster	(1,412,861)	-
Total restricted net position	\$ 6,971,348	\$ 6,113,004

13. Risk Management

The Authority maintains insurance contracts to mitigate the risk of loss arising from the following events: torts; theft of, damage to, or destruction of certain assets; wrongful acts by directors and officers; job-related illness or injuries to employees; acts of God; and losses

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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.

14. Commitments, Contingencies, and Other Restricted Assets

Continuing Covenant Agreement

Under the continuing covenant agreement, as amended, the Authority is required to maintain certain minimum balances in the funds held at the Trustee Bank. Failure to meet this liquidity covenant for any quarterly period represents an event of default.

Collaboration Agreement

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

The participants in the agreement are the County, City, RACL, Lancaster CRIZ Authority, and Discover Lancaster. The Authority achieved a number of objectives as part of the agreement. The primary objectives were refinancing the bonds under more favorable terms, which required a full County guarantee, achieving a reliable source of funds for targeted marketing activities to attract Priority 1 and Priority 2 events, achieving a reliable source of funding for FF&E replacement costs, replenishing the required reserve accounts, and establishing a more reliable flow of funds, especially in the first half of each year due to the seasonal nature of the collection of the hotel room rental tax.

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

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Marketing Funding

The Collaboration 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 was through June 30, 2021.

Of the \$3,025,520 deposited in the Consortium accounts through December 31, 2021, \$1,900,124 had been expended, leaving a balance of \$1,123,396 of funds as of December 31, 2021, which is included in the restricted cash and investments of the Authority.

Additional funding to perform the target marketing for Priority 1 and Priority 2 events is required per the October 2018 memorandum of understanding with Discover Lancaster. During the year ended December 31, 2021, the Authority provided funding of \$417,250 as required by the memorandum of understanding. Additional Authority funding per the memorandum of understanding is as follows:

	Authority Administrative Budget	Authority 2014 Bond Funds	Total
2022	\$ 35,000	\$ 440,170	\$ 475,170
2023	35,000	448,974	483,974
Total	\$ 70,000	\$ 889,144	\$ 959,144

In addition to the funds provided by the Consortium and memorandum of understanding, the Authority continues to annually budget \$97,000 for the marketing of priority 1 and priority 2 events.

FF&E Funding

The Collaboration Agreement also required the Authority and the Lancaster CRIZ Authority to provide funding for capital reserves to replace FF&E. The Lancaster CRIZ Authority made payments to the Authority from 2014 through 2020 totaling \$5 million in accordance with the agreement.

Since 2012, the contributions to the capital replacement fund as required by the agreement were made by the Authority and/or the Lancaster CRIZ Authority. For 2021, the Authority made contributions of \$1,000,000 to the capital replacement fund from the bonds fund.

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The balance in the restricted capital replacement fund is \$1,869,788 and \$1,449,662 as of December 31, 2021 and 2020, respectively.

Additional Authority capital replacement fund contributions required under the October 2018 memorandum of understanding with Discover Lancaster as of December 31, 2021 are as follows:

2022	\$	1,000,000
2023		<u>1,000,000</u>
Total	\$	<u><u>2,000,000</u></u>

During the years ended December 31, 2021 and 2020, the Authority expended \$388,777 and \$424,136, respectively, of the Lancaster CRIZ Authority funds (CRIZ account). These expenses are initially paid from the Capital Replacement Fund and are subsequently reimbursed from the Lancaster CRIZ Authority account. At December 31, 2021 and 2020, the balance of the restricted Lancaster CRIZ Authority account is \$2,601,006 and \$2,559,830, respectively. At December 31, 2021, \$388,777 remained to be reimbursed to the Authority's Capital Replacement Fund. At December 31, 2020, \$39,557 in excess of eligible expenses was reimbursed from the CRIZ account. This excess was due to a change in allocation of certain expenses subsequent to reimbursement being made from the CRIZ account. The excess was paid back to the CRIZ account in November 2021.

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

Incentives

The Center offers incentives for certain future events in the form of discounts. The discounts are recognized in the period in which the event is held. At December 31, 2021 and 2020, the Center's commitment to provide incentives was \$95,000 and \$80,000, respectively.

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15. Negative Unrestricted Net Position

The Authority's negative unrestricted net position, as shown on the balance sheets as of December 31, 2021 and 2020, is due to a GASB requirement for governmental entities to terminate hedge accounting when a termination event has occurred on a derivative instrument (interest rate swap). A termination event occurs when a significant change in a critical term of an interest rate swap is made.

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

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, 2021 fair value of the Authority's interest rate swap was (\$24,193,533), when compared to the December 31, 2020 fair value of (\$29,472,684) for a positive change in valuation of \$5,279,151. All changes (including this \$5,279,151) in the fair value of the Authority's interest rate swap are a reflection of market conditions and payments made under the swap agreement.

SUPPLEMENTARY INFORMATION

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

COMBINING BALANCE SHEET

DECEMBER 31, 2021

Assets	Authority	Operations	Total
Current assets:			
Cash and cash equivalents	\$ 1,440,852	\$ 1,318,584	\$ 2,759,436
Receivables:			
Taxes	1,215,821	-	1,215,821
Other	25,250	49,416	74,666
Due from Operations/Due to Authority	1,123,396	(1,123,396)	-
Inventory	-	10,417	10,417
Prepaid expenses	30,550	121,019	151,569
Other asset	-	13,650	13,650
Total current assets	3,835,869	389,690	4,225,559
Restricted assets:			
Cash and investments	11,699,187	1,123,396	12,822,583
Total restricted assets	11,699,187	1,123,396	12,822,583
Capital assets:			
Land	1,607,517	-	1,607,517
Building	76,293,976	-	76,293,976
Furniture, fixtures, and equipment:			
Convention Center	5,814,495	-	5,814,495
Penn Square Condominium Association	515,292	-	515,292
Office	8,451	-	8,451
	84,239,731	-	84,239,731
Less: accumulated depreciation	29,858,107	-	29,858,107
Net capital assets	54,381,624	-	54,381,624
Total Assets	\$69,916,680	\$ 1,513,086	\$71,429,766

(Continued)

Liabilities and Net Position	<u>Authority</u>	<u>Operations</u>	<u>Total</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 66,389	\$ 4,968	\$ 71,357
Accrued payroll and payroll expense	4,233	-	4,233
Other accrued expenses	-	230,486	230,486
Due to Interstate Hotels & Resorts	-	23,445	23,445
Current portion of bonds payable	670,000	-	670,000
Unearned revenue	-	127,577	127,577
Contingency fee payable	50,000	-	50,000
Total current liabilities	<u>790,622</u>	<u>386,476</u>	<u>1,177,098</u>
Current liabilities (payable from restricted assets):			
Accrued interest payable	248,154	-	248,154
Due to Discover Lancaster	1,412,861	-	1,412,861
Total current liabilities (payable from restricted assets)	<u>1,661,015</u>	<u>-</u>	<u>1,661,015</u>
Long-term liabilities:			
Reimbursement for contingency payable	300,000	-	300,000
Bonds payable	58,320,000	-	58,320,000
Interest rate swap liability	9,172,186	-	9,172,186
Swap borrowing, net of accumulated amortization of \$6,120,049	15,021,347	-	15,021,347
Total long-term liabilities	<u>82,813,533</u>	<u>-</u>	<u>82,813,533</u>
Total Liabilities	<u>85,265,170</u>	<u>386,476</u>	<u>85,651,646</u>
Net Position:			
Net investment in capital assets	(520,002)	-	(520,002)
Restricted	6,971,348	-	6,971,348
Unrestricted	(21,799,836)	1,126,610	(20,673,226)
Total Net Position	<u>(15,348,490)</u>	<u>1,126,610</u>	<u>(14,221,880)</u>
Total Liabilities and Net Position	<u><u>\$ 69,916,680</u></u>	<u><u>\$ 1,513,086</u></u>	<u><u>\$ 71,429,766</u></u>
			(Concluded)

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2021

	Authority	Operations	Total
Operating Revenues:			
Conference services	\$ -	\$ 1,030,026	\$ 1,030,026
Concession	-	99,160	99,160
Other	-	21,695	21,695
Total operating revenues	-	1,150,881	1,150,881
Operating Expenses:			
Departmental expenses	-	553,464	553,464
Undistributed operating expenses	-	1,481,175	1,481,175
Management fees	-	226,559	226,559
Fixed charges	-	72,138	72,138
Capital/development costs	14,043	-	14,043
Total operating expenses	14,043	2,333,336	2,347,379
Other Operating Expenses:			
Administrative expenses	370,003	-	370,003
Collaboration Agreement - Marketing Consortium	251,770	-	251,770
Depreciation	2,392,016	-	2,392,016
Total other operating expenses	3,013,789	-	3,013,789
Operating Loss	(3,027,832)	(1,182,455)	(4,210,287)
Non-Operating Revenues (Expenses):			
Hotel room rental tax income, net of \$1,421,861 as required by the Collaboration Agreement	6,312,944	-	6,312,944
Investment income	4,498	-	4,498
Other income	4,287	-	4,287
Interest expense, net of amortization of swap borrowing of \$661,627	(2,313,238)	-	(2,313,238)
Change in fair value of interest rate swap	4,617,524	-	4,617,524
Total non-operating revenues (expenses)	8,626,015	-	8,626,015
Transfers	(400,000)	400,000	-
Change in Net Position	5,198,183	(782,455)	4,415,728
Net Position:			
Beginning of period	(20,546,673)	1,909,065	(18,637,608)
End of period	<u>\$ (15,348,490)</u>	<u>\$ 1,126,610</u>	<u>\$ (14,221,880)</u>

LANCASTER COUNTY CONVENTION CENTER AUTHORITY

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating Expenses:		
Departmental expenses:		
Conference service	\$ 400,238	\$ 144,026
Concession	-	16,193
Event management	56,856	23,238
Public space	96,370	59,303
Total departmental expenses	553,464	242,760
Undistributed operating expenses:		
Administrative and general	293,853	254,382
Sales and marketing	244,078	208,967
Repairs and maintenance	441,216	363,164
Energy	361,363	257,708
Information technology	90,689	80,847
Miscellaneous	49,976	36,860
Total undistributed operating expenses	1,481,175	1,201,928
Management fees	226,559	178,744
Collaboration Agreement - Marketing Consortium	251,770	202,928
Fixed charges:		
Insurance	72,138	61,835
Operating supplies and equipment	-	6,419
PPE non-capitalizable expenses	-	194,978
Total fixed charges	72,138	263,232
Administrative expenses:		
Solicitor fees and expense	11,534	9,474
Historic properties repairs	6,831	2,726
Renovation and minor equipment	5,158	8,999
Employee compensation	187,383	174,902
Executive director expenses, employee mileage and travel	1,469	619
Payroll taxes	13,858	12,383
Employee benefits	37,279	38,114
Office supplies and expense	1,845	1,099
Internet and computer service	10,726	11,044
Accounting fees	42,801	35,654
Business advisory fees	9,611	17,225
Insurance	17,605	18,106
Telephone expense	2,168	2,296
Advertising notices	417	-
Miscellaneous expense	21,318	11,119
Total administrative expenses	370,003	343,760

(Continued)

**LANCASTER COUNTY CONVENTION
CENTER AUTHORITY**

SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2021 AND 2020

(Continued)

	<u>2021</u>	<u>2020</u>
Depreciation	2,392,016	2,198,717
Capital/development costs:		
Accounting	8,043	7,587
Trustee fees	6,000	6,000
Total capital/development costs	<u>14,043</u>	<u>13,587</u>
Repairs and maintenance	-	551
Total operating expenses	<u><u>\$ 5,361,168</u></u>	<u><u>\$ 4,646,207</u></u>

(Concluded)