

**Lancaster County Convention  
Center Authority**

Financial Statements with  
Supplementary Information

Years Ended December 31, 2011 and 2010  
with Independent Auditor's Report

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

## TABLE OF CONTENTS

### **Independent Auditor's Report**

### **Financial Statements:**

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

### **Supplementary Information:**

Schedule of Expenses	26
----------------------	----

## Independent Auditor's Report

Board of Directors  
Lancaster County Convention Center Authority

We have audited the accompanying basic 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, 2011 and 2010. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying supplementary information on pages 26 and 27 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Maheer Duessel*

Harrisburg, Pennsylvania  
March 29, 2012

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**BALANCE SHEETS**

DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 619,296	\$ 306,265
Receivables:		
Taxes	558,489	533,665
Other	17,870	85,034
Due from Interstate Hotels & Resorts	37,966	22,420
Inventory	10,513	14,281
Other prepaid expenses	57,832	51,876
	1,301,966	1,013,541
Restricted assets:		
Cash and investments	6,102,170	6,300,870
Prepaid letter of credit fees	-	171,233
	6,102,170	6,472,103
Capital assets:		
Land	1,579,621	1,579,621
Building	75,059,135	75,062,414
Furniture, fixtures, and equipment:		
Convention Center	4,047,916	4,075,798
Penn Square Condominium Association	399,184	399,184
Office	37,411	37,411
	81,123,267	81,154,428
Less: accumulated depreciation	6,280,976	3,849,050
	74,842,291	77,305,378
Other assets:		
Bond issuance costs - net of amortization of \$203,464 and \$164,340	1,383,564	1,052,707
Deferred outflows	-	11,060,625
	1,383,564	12,113,332
<b>Total Assets</b>	<b>\$ 83,629,991</b>	<b>\$ 96,904,354</b>

(Continued)

	2011	2010
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 66,237	\$ 171,138
Accrued payroll and payroll expense	4,270	4,225
Other accrued expenses	181,639	151,389
Deferred revenue	35,106	56,958
Developer's fee payable	34,800	34,800
Total current liabilities	<u>322,052</u>	<u>418,510</u>
Current liabilities (payable from restricted assets):		
Accounts payable	-	18,292
Current portion of bonds payable	-	545,000
Accrued interest payable	252,937	199,938
Total current liabilities (payable from restricted assets)	<u>252,937</u>	<u>763,230</u>
Long-term liabilities:		
Reimbursement for contingency payable	705,245	705,245
Developer's fee payable	69,600	104,400
Bonds payable	63,590,000	63,045,000
Note payable	750,000	-
Interest rate swap liability	3,186,679	11,060,625
Swap borrowing, net of accumulated amortization of \$165,406 for 2011 and zero for 2010	21,637,617	-
Total long-term liabilities	<u>89,939,141</u>	<u>74,915,270</u>
Total Liabilities	<u>90,514,130</u>	<u>76,097,010</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	16,301,990	19,057,314
Restricted	841,575	1,317,692
Unrestricted	(24,027,704)	432,338
Total Net Assets	<u>(6,884,139)</u>	<u>20,807,344</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 83,629,991</u>	<u>\$ 96,904,354</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 ASSETS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Operating Revenues:</b>		
Conference services	\$ 1,427,948	\$ 1,186,943
Concession	153,580	126,633
Other	3,551	3,017
Total operating revenues	1,585,079	1,316,593
<b>Operating Expenses:</b>		
Departmental expenses	677,540	662,509
Undistributed operating expenses	1,506,055	1,413,729
Management fees	168,000	180,000
Fixed charges	77,036	88,871
Administrative expenses	338,258	377,573
Depreciation	2,431,926	2,436,895
Project development and pre-construction costs	42,207	120,025
Total operating expenses	5,241,022	5,279,602
Operating Loss	(3,655,943)	(3,963,009)
<b>Non-Operating Revenues (Expenses):</b>		
Hotel room rental tax income	3,696,653	3,651,177
Investment income	219,064	202,994
Other income	4,694	6,614
Interest expense, net of amortization of swap borrowing of \$165,406 for 2011 and zero for 2010	(2,927,125)	(3,118,658)
Change in fair value of interest rate swap	(3,186,679)	-
Amortization	(39,124)	(38,696)
Total non-operating revenues (expenses)	(2,232,517)	703,431
Change in Net Assets before Special Item	(5,888,460)	(3,259,578)
<b>Special Item:</b>		
Investment loss on swap termination	(21,803,023)	-
Change in Net Assets	(27,691,483)	(3,259,578)
<b>Net Assets:</b>		
Beginning of period	20,807,344	24,066,922
End of period	\$ (6,884,139)	\$ 20,807,344

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Operating receipts	\$ 1,630,391	\$ 1,287,733
Payments to suppliers for operating expenses	(2,645,632)	(2,596,106)
Payments to suppliers for project development and preconstruction costs	(42,207)	(120,025)
Payments to employees	(182,436)	(183,655)
Net cash used in operating activities	(1,239,884)	(1,612,053)
<b>Cash Flows From Capital and Related Financial Activities:</b>		
Purchase of capital assets	(18,292)	(2,950,931)
Principal payments on bonds payable	-	(25,000)
Bond restructuring costs	(369,981)	-
Payments of developer's fee	(34,800)	-
Proceeds from note payable	750,000	-
Receipts from hotel room revenue tax	3,676,523	3,573,103
Capital grant receipts	-	160,000
Interest expense paid	(2,868,299)	(3,288,213)
Net cash provided by (used in) capital and related financing activities	1,135,151	(2,531,041)
<b>Cash Flows From Investing Activities:</b>		
Proceeds from the sale of investments	9,936,985	12,494,168
Purchase of investments	(9,738,285)	(8,402,255)
Interest income received	219,064	221,236
Net cash provided by investing activities	417,764	4,313,149
<b>Net Increase in Cash and Cash Equivalents</b>	313,031	170,055
<b>Cash and Cash Equivalents:</b>		
Beginning of period	306,265	136,210
End of period	\$ 619,296	\$ 306,265

(Continued)



**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**STATEMENTS OF CASH FLOW**

YEARS ENDED DECEMBER 31, 2011 AND 2010

(Continued)

	2011	2010
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	\$ (3,655,943)	\$ (3,963,009)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,431,926	2,436,895
Loss on sale of assets	-	12,681
(Increase) decrease in:		
Other receivables	67,164	(50,668)
Due from Interstate Hotels & Resorts	(15,546)	-
Inventory	3,768	(3,432)
Other prepaid expenses	(5,956)	(14,278)
Increase (decrease) in:		
Accounts payable	(73,740)	98,193
Accrued payroll and payroll taxes	45	904
Other accrued expenses	30,250	(25,889)
Due to Interstate Hotels & Resorts	-	(125,258)
Deferred revenue	(21,852)	21,808
Total adjustments	2,416,059	2,350,956
Net cash used in operating activities	\$ (1,239,884)	\$ (1,612,053)
		(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, 2011 AND 2010

---

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

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

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

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

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### 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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected to follow subsequent private-sector guidance.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "Invested in capital assets, net of related debt"; "Restricted for" various purposes; and "Unrestricted" components.

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

### Cash and Cash Equivalents

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

### Investments

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

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### Restricted Assets

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

### Bond Issuance Costs

Bond issuance costs represent expenses incurred in the process of issuing or refinancing bonds and are amortized over the life of the related bond issue, using the effective interest method.

### Capital Assets

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

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

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

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

### Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues and expenses and contributions of capital. Net assets are classified in the following three components: Invested in capital assets, net of related debt; restricted for various purposes; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for various purposes consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws regulations, and enabling

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

### Use of Estimates

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

### Operating Revenues and Expenses

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

### Restricted Resources

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

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

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

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### 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, 2011, the book balance of the Authority was \$834,114 and the bank balance was \$963,389. At December 31, 2011, the book balance included \$214,818 and the bank balance included \$214,818 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2010, the book balance of the Authority was \$679,446 and the bank balance was \$859,567. At December 31, 2010, the book balance included \$373,181 and the bank balance included \$424,523 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$413,495 and \$408,646 was covered by federal depository insurance at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, 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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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:

	2011	2010
Money market funds	\$ 1,776,223	\$ 1,816,560
Guaranteed investment contracts	4,111,129	4,111,129
	\$ 5,887,352	\$ 5,927,689

*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, 2011 and 2010, more than five percent of the Authority’s investments are held as follows:

December 31, 2011	Contract Value	% of Total	Yield
Guaranteed investment contracts:			
Citigroup Financial Product	\$ 4,111,129	69.83%	5.315%
December 31, 2010	Contract Value	% of Total	Yield
Guaranteed investment contracts:			
Citigroup Financial Product	\$ 4,111,129	69.35%	5.315%

*Credit Risk* – The Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2011 and 2010, the Authority's investment in

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

money market funds were rated AAAM by Standard & Poor's. As of December 31, 2011 and 2010, the guaranteed investment contracts were unrated.

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

*Interest Rate Risk* – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a list of the Authority's investments and their related average maturities:

<u>December 31, 2011</u>	Fair/ Contract Value	<u>Investment Maturity</u>	
		<u>2012</u>	<u>2022</u>
Money market funds	\$ 1,776,223	\$ 1,776,223	\$ -
Guaranteed investment contracts	<u>4,111,129</u>	-	<u>4,111,129</u>
Total	<u>\$ 5,887,352</u>	<u>\$ 1,776,223</u>	<u>\$ 4,111,129</u>
<u>December 31, 2010</u>	Fair/ Contract Value	<u>Investment Maturity</u>	
		<u>2011</u>	<u>2022</u>
Money market funds	\$ 1,816,560	\$ 1,816,560	\$ -
Guaranteed investment contracts	<u>4,111,129</u>	-	<u>4,111,129</u>
Total	<u>\$ 5,927,689</u>	<u>\$ 1,816,560</u>	<u>\$ 4,111,129</u>



# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

### 5. CAPITAL ASSETS

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

	Beginning Balance 1/1/2011	Additions	Disposals	Adjustments	Ending Balance 12/31/2011
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>-</u>	<u>1,579,621</u>
Capital assets being depreciated:					
Building	75,062,414	5,962	-	(9,241)	75,059,135
Furniture, fixtures, and equipment:					
Convention Center	4,075,798	28,853	-	(56,735)	4,047,916
Penn Square Condominium Association	399,184	-	-	-	399,184
Office	37,411	-	-	-	37,411
Total capital assets, being depreciated	<u>79,574,807</u>	<u>34,815</u>	<u>-</u>	<u>(65,976)</u>	<u>79,543,646</u>
Less accumulated depreciation for:					
Building	3,092,616	1,963,275	-	-	5,055,891
Furniture, fixtures, and equipment	756,434	468,651	-	-	1,225,085
Total accumulated depreciation	<u>3,849,050</u>	<u>2,431,926</u>	<u>-</u>	<u>-</u>	<u>6,280,976</u>
Total capital assets being depreciated, net	<u>75,725,757</u>	<u>(2,397,111)</u>	<u>-</u>	<u>(65,976)</u>	<u>73,262,670</u>
Total capital assets, net	<u>\$ 77,305,378</u>	<u>\$ (2,397,111)</u>	<u>\$ -</u>	<u>\$ (65,976)</u>	<u>\$ 74,842,291</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	Beginning Balance 1/1/2010	Additions	Disposals	Transfers	Ending Balance 12/31/2010
Capital assets not being depreciated:					
Land	\$ 1,579,621	\$ -	\$ -	\$ -	\$ 1,579,621
Total capital assets not being depreciated	1,579,621	-	-	-	1,579,621
Capital assets being depreciated:					
Building	75,011,728	50,686	-	-	75,062,414
Furniture, fixtures, and equipment:					
Convention Center	3,979,912	116,735	(12,681)	(8,168)	4,075,798
Penn Square Condominium Association	381,905	9,111	-	8,168	399,184
Office	29,086	8,325	-	-	37,411
Total capital assets, being depreciated	79,402,631	184,857	(12,681)	-	79,574,807
Less accumulated depreciation for:					
Building	1,129,119	1,963,497	-	-	3,092,616
Furniture, fixtures, and equipment	283,036	473,398	-	-	756,434
Total accumulated depreciation	1,412,155	2,436,895	-	-	3,849,050
Total capital assets being depreciated, net	77,990,476	(2,252,038)	(12,681)	-	75,725,757
Total capital assets, net	\$ 79,570,097	\$ (2,252,038)	\$ (12,681)	\$ -	\$ 77,305,378

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

Per the second amendment to the Professional Services Development Agreement, the Authority is to pay the developer the remaining developer's fees and developer's expenses and reimbursable costs of \$328,000. The Authority paid the developer \$154,000 during May 2010, \$34,800 during the year ended December 31, 2011, and is to make payments of \$34,800 annually through 2014.

Per the second amendment to the Joint Development Agreement among the Authority, the Redevelopment Authority of the City of Lancaster (RACL), and Penn Square Partners (PSP), the Authority is to pay \$705,245 to PSP to reimburse the RACL/PSP contingency provided under the agreement. RACL/PSP agree to use the funds received to either complete the Project or to be deposited into the Furniture, Fixtures and Equipment (FF&E) Reserve Fund for the hotel. The Authority is to make annual payments of \$50,000 beginning March 15, 2015.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### 7. BONDS PAYABLE

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

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

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

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

Under the Agreement, the interest rate was converted from the Weekly Rate to the Index Interest Rate. The Bonds will bear interest at a per annum rate of interest equal to the sum of (i) the Index, defined as 67% of LIBOR, and (ii) the Applicable Spread, commencing

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

October 3, 2011. The Applicable Spread effective from October 3, 2011 through February 28, 2012 is 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 will increase to 175 basis points on the Series of 2003 Bonds and 190 basis points on the Series of 2007 Bonds. The Applicable Spread can be reduced if the Authority is able to accomplish certain milestones as set forth in the Agreement. At December 31, 2011, the Index Interest Rate on the Series of 2003 Bonds and Series of 2007 Bonds was 1.132 percent and 1.432 percent, respectively.

At the option of the Authority, the Bonds may be optionally redeemed or converted to another interest rate mode to be effective on the interest payment date prior to the mandatory purchase date upon 60 days written notice to the Bank.

The amount of outstanding Hotel Room Rental Tax Revenue Bonds, Series of 2003 and Series of 2007 at December 31, 2011 and 2010 is \$63,590,000 and \$63,590,000, respectively. The Series of 2003 will amortize from December 1, 2013 through December 1, 2042. The Series of 2007 will amortize from December 1, 2013 through December 1, 2047.

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

December 31, 2011	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable:					
Series of 2003	\$ 39,670,000	\$ -	\$ -	\$ 39,670,000	\$ -
Series of 2007	23,920,000	-	-	23,920,000	-
Long-term liabilities	<u>\$ 63,590,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,590,000</u>	<u>\$ -</u>
December 31, 2010	Beginning of Year	Additions	Retirements	End of Year	Current Portion
Bonds payable:					
Series of 2003	\$ 39,695,000	\$ -	\$ (25,000)	\$ 39,670,000	\$ 545,000
Series of 2007	23,920,000	-	-	23,920,000	-
Long-term liabilities	<u>\$ 63,615,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ 63,590,000</u>	<u>\$ 545,000</u>

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011	2010
Letter of credit fees	\$ 519,402	\$ 694,680
Interest - variable rate (net)	191,642	43,930
Interest rate - fixed rate	2,319,168	2,321,947
Remarketing fees	62,319	58,101
Amortization of swap borrowing	(165,406)	-
	\$ 2,927,125	\$ 3,118,658

As further described in Note 9, the Authority entered into a pay fixed, receive variable interest rate swap to synthetically fix the variable rate on the Series of 2003 Bonds and Series of 2007 Bonds to 3.67% and 3.57% plus the Applicable Spread, respectively, at December 31, 2011.

Debt service requirements, including interest at the rates in effect under the Swap agreement, including the Applicable Spread effective March 1, 2012, are as follows:

	Principal	Interest	Total
2012	\$ -	\$ 3,347,898	\$ 3,347,898
2013	-	3,458,538	3,458,538
2014	-	3,458,538	3,458,538
2015	370,000	3,456,866	3,826,866
2016	410,000	3,436,632	3,846,632
2017-2021	2,860,000	16,789,804	19,649,804
2022-2026	4,530,000	15,836,472	20,366,472
2027-2031	6,735,000	14,372,868	21,107,868
2032-2036	9,635,000	12,237,301	21,872,301
2037-2041	13,000,000	9,226,993	22,226,993
2042-2046	19,975,000	4,619,929	24,594,929
2047	6,075,000	304,612	6,379,612
	\$ 63,590,000	\$ 90,546,451	\$ 154,136,451

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

### 8. NOTE PAYABLE

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

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

	Principal	Interest	Total
2012	\$ -	\$ 26,250	\$ 26,250
2013	350,000	25,229	375,229
2014	400,000	12,833	412,833
	\$ 750,000	\$ 64,312	\$ 814,312

### 9. DERIVATIVES – INTEREST RATE SWAP

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

*Terms* - The Bonds and the related Swap agreements mature on December 1, 2042 (Series of 2003 Bonds) and December 1, 2047 (Series of 2007 Bonds), and the Swap's notional amount of \$40,000,000 and \$23,920,000, respectively, is 100% of the total issue amount of the underlying bonds. The notional amount of the Swap agreement decreases as the outstanding principal amount of the corresponding Series of 2003 Bonds and Series of 2007 Bonds decrease through maturing principal. The Swap agreements were entered into at the same

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

time the Bonds were issued, March 2007. Prior to October 3, 2011, under the Swap agreements, the Authority paid the counterparty a fixed payment of 3.65% and received a variable payment computed as 67% of the one-month London Interbank Offered Rate (LIBOR). Conversely, the Bonds' variable-rate was based on the Weekly Rate determined by the remarketing agent. Effective October 3, 2011, the Authority pays the counterparty a fixed payment of 3.67% related to the Series of 2003 Bonds and 3.57% related to the Series of 2007 Bonds. Conversely, the Bonds' variable-rate is based on the Index Interest Rate as defined in Note 7.

Pursuant to the Swap agreements, the Authority pays or receives to/from the counterparty a monthly net swap payment. For the year ended December 31, 2011, the Authority paid \$1,449,277 and \$869,891 fixed and received \$61,295 and \$36,959 variable with respect to the Swap on the Series of 2003 Bonds and Series of 2007 Bonds, respectively. For the year ended December 31, 2010, the Authority paid \$1,448,867 and \$873,080 fixed and received \$72,606 and \$43,321 variable with respect to the Swap on the Series of 2003 Bonds and Series of 2007 Bonds, respectively.

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

*Fair Value Risk* - Fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. The fair value is based upon mid-market quotations for the transactions. Mid-market quotations are based on bid/ask quotations shown on reliable electronic information screens as of close of business on the date specified. Such amount represents the present value difference between the floating rate receipt and fixed rate payment as of December 31, 2011 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 had negative fair values of \$12,496,248 and \$9,306,775 for the Series of 2003 Bonds and Series of 2007 Bonds, respectively. As such, the deferred outflows were charged to investment loss on swap termination, a special item, on the statements of revenue, expenses, and change in net assets, and the swap liability was reclassified to a swap borrowing on the balance sheet. Governmental accounting standards require that the swap borrowing be amortized to offset interest expense, straight-line, over the life of the bonds.

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

Notional Amount	January 1, 2010 - Fair Value	Change in Fair Value	December 31, 2010 - Fair Value
\$ 39,670,000	\$ (4,693,634)	\$ (1,859,854)	\$ (6,553,488)
23,920,000	(3,201,051)	(1,306,086)	(4,507,137)
Total	<u>\$ (7,894,685)</u>	<u>\$ (3,165,940)</u>	<u>\$ (11,060,625)</u>

Notional Amount	January 1, 2011 - Fair Value	Change in Fair Value Prior to Termination	Value at Termination Date	Amortization of Swap Borrowing	Change in Fair Value Subsequent to Termination	December 31, 2011 - Fair Value
\$ 39,670,000	\$ (6,553,488)	\$ (5,942,760)	\$ (12,496,248)	\$ 100,776	\$ (1,639,777)	\$ (14,035,249)
23,920,000	(4,507,137)	(4,799,638)	(9,306,775)	64,630	(1,546,902)	(10,789,047)
Total	<u>\$ (11,060,625)</u>	<u>\$ (10,742,398)</u>	<u>\$ (21,803,023)</u>	<u>\$ 165,406</u>	<u>\$ (3,186,679)</u>	<u>\$ (24,824,296)</u>

*Accounting and Risk Disclosures* - As noted in the fair value table above, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2010, current period changes in the fair value of the Swap are accounted for as a hedge and are recorded on the balance sheets as a deferred outflow. The fair value of the outstanding Swap as of December 31, 2010 is reported on the balance sheets as an interest rate swap liability. At December 31, 2011, current period changes in fair value for the Swap are accounted for as an investment and are recorded on the statement of revenues, expenses, and changes in net assets as change in fair value of interest rate swap. The fair value of the outstanding Swap as of December 31, 2011 is reported on the balance sheets as a combination of interest rate swap liability and swap borrowing.

*Credit Risk* - As of December 31, 2011 and 2010, 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, 2011, the Bank was rated Aa3 by Moody's, AA- by Standard & Poor's, and AA- by Fitch.

*Basis Risk* - Basis risk is the risk that the interest rate paid by the Authority on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The Authority is not exposed to basis risk, as the variable rate paid to bondholders is based on the same rate received from the Bank. At December 31, 2011, the Index Interest Rate on the Series of 2003 Bonds and Series of 2007 Bonds was



# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

1.132 percent and 1.432 percent, respectively, whereas 67 percent of one-month LIBOR was .19. At December 31, 2010, the Weekly Rate on the Series 2003 and 2007 Hotel Room Rental Tax Revenue Bonds was .22 percent, whereas 67 percent of one-month LIBOR was .17 percent and .15 percent, respectively.

*Termination Risk* - The Authority or Bank may terminate the Swap if the other party fails to perform under the terms of the agreements. If the Swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. There are alternate termination dates of April 1, 2030 and December 1, 2033 on the Series of 2003 Swap and the Series of 2007 Swap, respectively. If at the time of termination the Swap has a negative fair value, the Authority would be liable to the Bank for a payment equal to the Swap's fair value.

*Swap Payments and Associated Debt* - Using rates as of December 31, 2011, including the Applicable Spread effective March 1, 2012, debt service requirements of the Series of 2003 Bonds and Series of 2007 Bonds and net Swap payments, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows. As these rates vary, interest payments on the Series of 2003 Bonds and Series of 2007 Bonds and net payments under the Swap agreements will vary:

Fiscal Year Ending December 31,	Series of 2003, Hotel Room Rental Tax Revenue Bonds			
	Principal	Interest	Swap Agreement Payments, Net	Total
2012	\$ -	\$ 698,482	\$ 1,377,481	\$ 2,075,963
2013	-	772,633	1,377,481	2,150,114
2014	-	772,633	1,377,481	2,150,114
2015	370,000	772,032	1,376,410	2,518,442
2016	410,000	764,761	1,363,447	2,538,208
2017-2021	2,860,000	3,682,454	6,565,230	13,107,684
2022-2026	4,530,000	3,339,879	5,954,473	13,824,352
2027-2031	6,735,000	2,813,941	5,016,807	14,565,748
2032-2036	9,635,000	2,046,535	3,648,646	15,330,181
2037-2041	12,630,000	965,402	1,721,158	15,316,560
2042	2,500,000	44,631	79,574	2,624,205
	<u>\$ 39,670,000</u>	<u>\$ 16,673,383</u>	<u>\$ 29,858,188</u>	<u>\$ 86,201,571</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds			
	Principal	Interest	Swap Agreement Payments, Net	Total
2012	\$ -	\$ 465,269	\$ 806,666	\$ 1,271,935
2013	-	501,758	806,666	1,308,424
2014	-	501,758	806,666	1,308,424
2015	-	501,758	806,666	1,308,424
2016	-	501,758	806,666	1,308,424
2017-2021	-	2,508,790	4,033,330	6,542,120
2022-2026	-	2,508,790	4,033,330	6,542,120
2027-2031	-	2,508,790	4,033,330	6,542,120
2032-2036	-	2,508,790	4,033,330	6,542,120
2037-2041	370,000	2,508,143	4,032,290	6,910,433
2042-2046	17,475,000	1,724,031	2,771,693	21,970,724
2047	6,075,000	116,811	187,801	6,379,612
	\$ 23,920,000	\$ 16,856,446	\$ 27,158,434	\$ 67,934,880

---

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

### 10. RESTRICTED ASSETS

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

	2011	2010
Cash and investments with trustee:		
Capitalized interest fund	\$ -	\$ 4
Debt service reserve fund	4,165,758	4,237,098
Settlement fund	-	2,237
Bond fund	500,000	370,656
Operating expense fund	343,988	374,663
Working capital/emergency reserve fund	-	394,036
Agency fund	47,587	98,993
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	5,507,333	5,927,687
Cash and investments held by Authority:		
Construction fund	61,805	59,170
HRRT depository	2,130	2,130
State project escrow	100	100
HPT construction	150,783	311,783
Settlement fund	380,019	-
Prepaid letter of credit fees	-	171,233
Total restricted assets	\$ 6,102,170	\$ 6,472,103

### 11. RISK MANAGEMENT

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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### 12. COMMITMENTS AND CONTINGENCIES

#### Arbitrage

As of December 31, 2011 and 2010, the Authority earned less on its restricted and unrestricted yield investments of the Series of 2003 Bonds and Series of 2007 Bonds proceeds than had such proceeds been invested at the bond yield, and thus, the Authority has an accumulated combined arbitrage credit. Therefore, there is no arbitrage liability for the period March 29, 2007 to October 3, 2011. Additional arbitrage reporting will be required in the future for the Bonds, because proceeds of such Bonds remain on deposit in the Series of 2003 Bonds and Series of 2007 Bonds Debt Service Reserve Funds.

### 13. NEGATIVE NET ASSETS

The Authority's negative net assets, as shown on the December 31, 2011 balance sheet, are 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 is included in the statement of revenues, expenses, and change in net assets as a special item and the balance sheet as a swap borrowing. The \$21,803,023 liability will be amortized over the life of the bonds and will reduce interest expense for financial reporting purposes in future years. Additionally, the new interest rate swap agreement has been deemed to be ineffective and any changes in the mark-to-market value will flow through non-operating revenue/expense.

Since the 2008 national financial crises, the Authority has had a significant interest rate swap liability and understood that liability would be realized if, or when, the Authority refinanced its bonds or the hedge became ineffective. The October 2011 restructuring caused the Authority to account for the termination of hedge accounting as a liability on the balance sheet and recognize the swap loss on the statement of revenues, expenses, and change in net assets. 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.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

---

### 14. MANAGEMENT'S RESPONSE

Activities that the Authority has undertaken to improve its financial health include, but are not limited to:

- Engage a consultant to review convention center operations, marketing and sales of convention center operations, as well as financial agreements
- Pursue long-term solutions to improve bond financing structure, working with advisors to investigate all alternatives to reduce interest costs
- Publically communicate the need for increased Hotel Room Revenue Tax (HRRT) revenues to cure the anticipated underfunded bond reserves
- Work with Pennsylvania Dutch Convention and Visitors Bureau (PDCVB), their task force, and sub-committees to develop community solutions for PDCVB and the Authority's long-term financial health. This effort includes educating sub-committee members to accurately evaluate viability of different financing solutions using alternate growth rates for the HRRT and alternate interest rates
- Review and analyze potential solutions to improve the higher than anticipated expenses for utilities

## **Supplementary Information**

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## SCHEDULE OF EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Operating Expenses:</b>		
Departmental expenses:		
Conference service	\$ 399,986	\$ 416,141
Concession	104,144	101,615
Event management	64,185	59,018
Public space	109,225	85,735
Total departmental expenses	677,540	662,509
Undistributed operating expenses:		
Administrative and general	274,100	253,736
Sales and marketing	273,335	280,470
Repairs and maintenance	406,305	319,714
Energy	518,937	524,746
Miscellaneous	33,378	35,063
Total undistributed operating expenses	1,506,055	1,413,729
Management fees	168,000	180,000
Fixed charges:		
Insurance	74,357	78,929
Furniture, fixtures, and equipment	2,679	9,942
Total fixed charges	77,036	88,871
Administrative expenses:		
Solicitor fees and expense	14,632	29,862
Property management	12,838	28,301
Employee compensation	182,481	184,559
Executive director expenses, employee mileage, and travel	1,637	1,887
Payroll taxes	14,400	12,870
Employee benefits	26,669	23,197
Office lease expense	-	48
Office supplies and expense	3,154	3,245
Internet and computer service	6,429	8,065
Accounting fees	33,390	46,875
Business advisory fees	14,239	6,910
Insurance	21,713	24,071
Telephone expense	1,690	1,305
Advertising notices	360	524
Architect consulting expense	602	782
Miscellaneous expense	4,024	5,072
Total administrative expenses	338,258	377,573

(Continued)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**SCHEDULE OF EXPENSES**

YEARS ENDED DECEMBER 31, 2011 AND 2010

(Continued)

	<u>2011</u>	<u>2010</u>
Depreciation	2,431,926	2,436,895
Project development and pre-construction costs:		
Legal fees - litigation and construction	21,808	64,561
Accounting	4,699	35,564
Trustee fees	15,700	19,900
Total project development and pre-construction costs	<u>42,207</u>	<u>120,025</u>
Total operating expenses	<u>\$ 5,241,022</u>	<u>\$ 5,279,602</u>

(Concluded)