

**LANCASTER COUNTY
CONVENTION CENTER AUTHORITY**

YEARS ENDED MARCH 31, 2003 AND 2002

Lancaster County Convention Center Authority

Financial Statements

Years ended March 31, 2003 and 2002

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Lancaster County Convention Center Authority
Lancaster, Pennsylvania

We have audited the financial statements of the Lancaster County Convention Center Authority, a component unit of the County of Lancaster, as of and for the years ended March 31, 2003 and 2002 as listed in the table of contents. 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 audit 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 Lancaster County Convention Center Authority as of March 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

June 20, 2003
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Convention Center Authority
BALANCE SHEETS
March 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,117,157	1,160,608
Taxes Receivable	<u>268,030</u>	<u>321,242</u>
<u>Total Current Assets</u>	<u>1,385,187</u>	<u>1,481,850</u>
<u>FIXED ASSETS</u>		
Construction in Progress	236,461	-0-
Land	<u>1,579,621</u>	<u>1,579,621</u>
<u>Total Fixed Assets</u>	<u>1,816,082</u>	<u>1,579,621</u>
<u>TOTAL ASSETS</u>	<u>3,201,269</u>	<u>3,061,471</u>
<u>LIABILITIES and FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	482,370	245,726
Accrued Payroll and Payroll Taxes	<u>1,830</u>	<u>-0-</u>
<u>Total Current Liabilities</u>	484,200	245,726
<u>FUND EQUITY</u>		
Retained Earnings	<u>2,717,069</u>	<u>2,815,745</u>
<u>TOTAL LIABILITIES and FUND EQUITY</u>	<u>3,201,269</u>	<u>3,061,471</u>

See notes to financial statements.

Lancaster County Convention Center Authority
STATEMENTS of RETAINED EARNINGS
Years ended March 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>RETAINED EARNINGS</u>		
Balance - Beginning of Year	2,815,745	1,257,141
Add: Net Income (Loss)	<u>(98,676)</u>	<u>1,558,604</u>
Balance - End of Year	<u>2,717,069</u>	<u>2,815,745</u>

See notes to financial statements.

Lancaster County Convention Center Authority
STATEMENTS of REVENUE and EXPENSES
Years ended March 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>OPERATING INCOME</u>		
Hotel Room Rental Tax Income	2,961,998	2,978,046
Other Income	<u>3,559</u>	<u>463</u>
<u>Total Operating Income</u>	<u>2,965,557</u>	<u>2,978,509</u>
<u>OPERATING EXPENSES</u>		
Legal Fees and Expense - Litigation	928,641	384,550
Solicitor Fees and Expense	319,558	245,180
Legal Fees and Expense - Real Estate	184,726	134,444
Legal Fees - Negotiations	107,688	258,846
Consulting	135,124	117,023
Real Estate Advisory Consulting	1,141	152,047
Construction Consulting and Management Fees	103,690	30,288
Developer Fees and Expense	749,802	-0-
Property Management	41,318	-0-
Executive Director and Assistant - Salary	107,292	-0-
Executive Director Expenses	4,673	-0-
Payroll Taxes	10,552	-0-
Marketing	14,164	-0-
Office Lease Expense	13,857	-0-
Office Supplies and Expense	13,539	-0-
Internet	7,597	-0-
Building Repairs and Maintenance	2,817	-0-
Charitable Contributions	10,000	-0-
Accounting Fees	12,591	14,650
Court Reporter/Recording Secretary	-0-	465
Insurance	34,582	23,388
Public Relations	21,730	21,770
Answering Service/Telephone Expense	2,678	1,293
Architect Consulting and Expense	226,189	31,152
Advertising Notices	3,599	1,177
Miscellaneous Expense	<u>17,652</u>	<u>7,522</u>
<u>Total Operating Expenses</u>	<u>3,075,200</u>	<u>1,423,795</u>
<u>Net Operating Income (Loss)</u>	<u>(109,643)</u>	<u>1,554,714</u>
<u>OTHER INCOME (EXPENSE)</u>		
Interest Expense	-0-	(7,351)
Investment Income	<u>10,967</u>	<u>11,241</u>
<u>Net Other Income</u>	<u>10,967</u>	<u>3,890</u>
<u>NET INCOME (LOSS)</u>	<u>(98,676)</u>	<u>1,558,604</u>

See notes to financial statements.

Lancaster County Convention Center Authority
STATEMENTS of CASH FLOWS
Years ended March 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>CASH FLOWS from OPERATING ACTIVITIES</u>		
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Net Operating Income (Loss)	(109,643)	1,554,714
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
Taxes Receivable	53,212	(24,956)
Increase (Decrease) in:		
Accounts Payable	236,644	38,509
Accrued Interest	-0-	(2,130)
Accrued Payroll and Payroll Taxes	<u>1,830</u>	<u>-0-</u>
<u>Net Cash Provided by Operating Activities</u>	<u>182,043</u>	<u>1,566,137</u>
 <u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u>		
Construction in Progress	(236,461)	-0-
Land Purchased	-0-	(328,500)
Interest Payments	-0-	(7,351)
Monies Repaid - Line of Credit, Net	<u>-0-</u>	<u>(296,696)</u>
<u>Net Cash (Used) by Capital and Related Financing Activities</u>	<u>(236,461)</u>	<u>(632,547)</u>
 <u>CASH FLOWS from INVESTING ACTIVITIES</u>		
Interest Income Received	<u>10,967</u>	<u>11,241</u>
 <u>INCREASE (DECREASE) in CASH and CASH EQUIVALENTS</u>	 (43,451)	 944,831
 <u>CASH and CASH EQUIVALENTS</u>		
Beginning of Year	<u>1,160,608</u>	<u>215,777</u>
End of Year	<u>1,117,157</u>	<u>1,160,608</u>

See notes to financial statements.

Lancaster County Convention Center Authority
NOTES to FINANCIAL STATEMENTS.

NOTE 1 - Significant Accounting Policies

Description of Entity

The Lancaster County Convention Center Authority (the Authority) was formed on September 15, 1999 under the Municipal Authority Act of 1945 and the Third Class County Convention Center Authority Act. The purpose of the Authority is to provide financing and arrange for the development, construction and 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.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Lancaster County Convention Center 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 Lancaster County Convention Center Authority is part of the County of Lancaster's reporting entity based on the above criteria. These are the separate component unit financial statements of the Lancaster County Convention Center Authority. No other entities need to be included based on the above criteria.

Basis of Accounting

The Authority utilizes the accrual basis of accounting.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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.

NOTE 2 - Hotel Room Rental Tax

The County of Lancaster receives a 5% hotel room rental tax from the operators of each hotel within Lancaster County. Of the 5% tax, 1.88% is allocated to the Pennsylvania Dutch Convention and Visitors Bureau to be used to promote tourism in Lancaster County, and 3.12% is received by the Lancaster County Convention Center Authority to be used for the construction and operation of the convention center facility.

Lancaster County Convention Center Authority
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 3 - Future State Funding

The Commonwealth of Pennsylvania has appropriated a \$15 million matching (50%) grant for construction and operation of the Lancaster County Convention Center. This revenue will not be recognized until final approval is received from the state and construction on the project begins.

NOTE 4 - Litigation

A group of Lancaster County hoteliers have joined together to sue and attempt to stop the building of the proposed convention center. The Authority has prevailed in all rulings of the court. The hoteliers have appealed this decision. The Authority is confident that it will prevail in the appeal also, and anticipates proceeding with the construction of the convention center facility.

NOTE 5 - Deposits

The Authority's checking account was insured by the Federal Deposit Insurance Corporation up to \$100,000 (category 1) and the balance collateralized by pledged obligations in accordance with Act 72 (category 3).

	<u>Total Bank Balance</u>	<u>Total Carrying Amount</u>
Checking Account	<u>297,763</u>	<u>293,768</u>

NOTE 6 - Investments

All investments are in First Union Business High Performance Money Market Funds. Due to the short-term nature of these Money Market Funds, they are considered a cash equivalent.

	<u>Non- Categorized</u>	<u>Market Value</u>	<u>Costs</u>
Investments in First Union Business High Performance Money Market Funds	823,189	823,189	823,189

NOTE 7 - Fixed Assets

Fixed Assets at April 1, 2002	1,579,621
Additions - Architect Design Development	<u>236,461</u>
Fixed Assets at March 31, 2003	<u>1,816,082</u>

NOTE 8 - Line of Credit

The Authority has entered into a line of credit arrangement with \$700,000 available. The interest rate is at the LIBOR market index rate plus 2% and is due August 31, 2003. The balance outstanding as of March 31, 2003 and 2002 was \$0.

Lancaster County Convention Center Authority
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 9 - Lease Commitment

The Authority leases office space under an operating lease which expires March 31, 2005. Rent expense for the year ended March 31 was \$12,788.

Minimum future rental payments under the non-cancelable operating lease are as follows:

2004	12,788
2005	<u>12,788</u>
	<u>25,576</u>