

**LANCASTER COUNTY
CONVENTION CENTER AUTHORITY
YEARS ENDED MARCH 31, 2004 AND 2003**

Lancaster County Convention Center Authority

Financial Statements

Years ended March 31, 2004 and 2003

TABLE of CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Net Assets	2 & 3
Statements of Changes in Net Assets	4
Statements of Revenue and Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 11

TROUT, EBERSOLE & GROFF, LLP

CERTIFIED PUBLIC ACCOUNTANTS

1705 OREGON PIKE
LANCASTER, PENNSYLVANIA 17601
(717) 569-2900
TOLL FREE 1 (800) 448-1384
FAX (717) 569-0141

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, 2004 and 2003 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 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 Lancaster County Convention Center Authority as of March 31, 2004 and 2003 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.

As described in Note 1 of the notes to financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments as of April 1, 2003. This results in a change to the format and content of the basic financial statements.

The management's discussion and analysis is not included in the supplementary information required by the Governmental Accounting Standards Board.

Trout, Ebersole & Groff LLP

August 3, 2004
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Lancaster County Convention Center Authority
STATEMENTS of NET ASSETS
March 31, 2004 and 2003

2004 2003

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	1,053,491	1,117,157
Taxes Receivable	<u>334,212</u>	<u>268,030</u>
 <u>Total Current Assets</u>	 <u>1,387,703</u>	 <u>1,385,187</u>

RESTRICTED ASSETS

Investments with Trustee:		
Construction Fund	31,649,932	-0-
Capitalized Interest Fund	3,316,123	-0-
Debt Service Reserve Fund	2,610,270	-0-
Settlement Fund	2,000,000	-0-
Interest Receivable	<u>176,445</u>	<u>-0-</u>
 <u>Total Restricted Assets</u>	 <u>39,752,770</u>	 <u>-0-</u>

CAPITAL ASSETS

Construction in Progress	236,461	236,461
Land	<u>1,579,621</u>	<u>1,579,621</u>
 <u>Total Capital Assets</u>	 <u>1,816,082</u>	 <u>1,816,082</u>

OTHER ASSETS

Bond Issuance Costs - net of Amortization of \$1,658	<u>422,017</u>	<u>-0-</u>
------------------------------------------------------	----------------	------------

<u>TOTAL ASSETS</u>	<u>43,378,572</u>	<u>3,201,269</u>
---------------------	-------------------	------------------

See notes to financial statements.

	<u>2004</u>	<u>2003</u>
<u>LIABILITIES and NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	492,043	482,370
Accrued Payroll and Payroll Taxes	<u>5,907</u>	<u>1,830</u>
<u>Total Current Liabilities</u>	<u>497,950</u>	<u>484,200</u>
<u>CURRENT LIABILITIES</u> (payable from Restricted Assets with Trustee)		
Accrued Interest Payable	<u>239,013</u>	<u>-0-</u>
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable - Series of 2003	<u>40,000,000</u>	<u>-0-</u>
<u>TOTAL LIABILITIES</u>	<u>40,736,963</u>	<u>484,200</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, net of Related Debt Unrestricted	1,816,082	1,816,082
	<u>825,527</u>	<u>900,987</u>
<u>TOTAL NET ASSETS</u>	<u>2,641,609</u>	<u>2,717,069</u>
 <u>TOTAL LIABILITIES and NET ASSETS</u>	 <u>43,378,572</u>	 <u>3,201,269</u>

Lancaster County Convention Center Authority
STATEMENTS of CHANGES in NET ASSETS
Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>NET ASSETS</u>		
Balance - Beginning of Year	2,717,069	2,815,745
Less: Net (Loss)	<u>(75,460)</u>	<u>(98,676)</u>
Balance - End of Year	<u>2,641,609</u>	<u>2,717,069</u>

See notes to financial statements.

Lancaster County Convention Center Authority
STATEMENTS of REVENUE and EXPENSES
Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>OPERATING INCOME</u>		
Hotel Room Rental Tax Income	3,024,855	2,961,998
Other Income	<u>4,921</u>	<u>3,559</u>
<u>Total Operating Income</u>	<u>3,029,776</u>	<u>2,965,557</u>
<u>OPERATING EXPENSES</u>		
Legal Fees and Expense - Litigation	390,120	928,641
Solicitor Fees and Expense	286,687	319,558
Legal Fees and Expense - Real Estate/Parking Garage	173,620	184,726
Legal Fees - Negotiations	530,889	107,688
Business Advisory Fees	270,736	136,265
Construction Consulting and Management Fees	72,255	103,690
Developer Fees and Expense	630,991	749,802
Property Management	25,276	41,318
Executive Director and Assistant - Salary	90,243	107,292
Executive Director Expenses	1,710	4,673
Payroll Taxes	7,800	10,552
Employee Benefits	14,869	5,660
Pre-Opening Sales and Marketing/Program Review	201,139	14,164
Office Lease Expense	12,788	13,857
Office Supplies and Expense	12,649	13,539
Internet	1,928	7,597
Building Repairs, Maintenance, and Utilities	18,261	2,817
Charitable Contributions	16,874	10,000
Accounting Fees	25,750	12,591
Building Demolition Fees	45,548	-0-
Appraisal Fees	15,000	-0-
Insurance	39,459	28,922
Public Relations	74,448	21,730
Telephone Expense	3,598	2,678
Architect Consulting and Expense	70,205	226,189
Advertising Notices	1,171	3,599
Miscellaneous Expense	<u>12,678</u>	<u>17,652</u>
<u>Total Operating Expenses</u>	<u>3,046,692</u>	<u>3,075,200</u>
<u>Net Operating (Loss)</u>	<u>(16,916)</u>	<u>(109,643)</u>
<u>OTHER INCOME (EXPENSE)</u>		
Interest Expense	(239,013)	-0-
Amortization Bond Issue Costs	(1,658)	-0-
Investment Income	<u>182,127</u>	<u>10,967</u>
<u>Net Other Income (Expense)</u>	<u>(58,544)</u>	<u>10,967</u>
<u>NET (LOSS)</u>	<u>(75,460)</u>	<u>(98,676)</u>

See notes to financial statements.

Lancaster County Convention Center Authority

STATEMENTS of CASH FLOWS

Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>CASH FLOWS from OPERATING ACTIVITIES</u>		
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Net Operating (Loss)	(16,916)	(109,643)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
Taxes Receivable	(66,182)	53,212
Increase (Decrease) in:		
Accounts Payable	9,673	236,644
Accrued Payroll and Payroll Taxes	<u>4,077</u>	<u>1,830</u>
 <u>Net Cash Provided (Used) by Operating Activities</u>	 <u>(69,348)</u>	 <u>182,043</u>
 <u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u>		
Construction in Progress	-0-	(236,461)
Bond Proceeds - Series of 2003	40,000,000	-0-
Bond Issue Costs	<u>(423,675)</u>	<u>-0-</u>
 <u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	 <u>39,576,325</u>	 <u>(236,461)</u>
 <u>CASH FLOWS from INVESTING ACTIVITIES</u>		
Investments Purchased	(39,576,325)	-0-
Interest Income Received	<u>5,682</u>	<u>10,967</u>
 <u>Net Cash Provided (Used) by Investing Activities</u>	 <u>(39,570,643)</u>	 <u>10,967</u>
 <u>(DECREASE) in CASH and CASH EQUIVALENTS</u>	 <u>(63,666)</u>	 <u>(43,451)</u>
 <u>CASH and CASH EQUIVALENTS</u>		
Beginning of Year	<u>1,117,157</u>	<u>1,160,608</u>
End of Year	<u>1,053,491</u>	<u>1,117,157</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 accompanying financial statements have been prepared on the accrual basis. The Authority reports as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB). Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of an economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Proprietary Accounting and Financial Reporting

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Authority follows all GASB pronouncements issued on, before, or after November 30, 1989, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting research Bulletins issued before November 30, 1989, unless they contradict GASB guidance.

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.

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

NOTE 1 - Significant Accounting Policies (Continued)

Bond Issue Costs

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

Basic Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. As a result, the financial statements now include a Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations. This and other changes are reflected in the accompanying financial statements. Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required below. For the Authority, the basic financial statements consist of:

Management's Discussion and Analysis

Required Financial Statements:

- Statements of Net Assets
- Statements of Revenues, Expenses, and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

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.

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 - Deposits

The Authority's checking accounts were 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).

March 31, 2004

	Category 1	Category 3	Total Bank Balance	Total Carrying Amount
Checking Accounts	200,000	655,765	855,765	618,654

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

NOTE 4 - Deposits (Continued)

<u>March 31, 2003</u>	<u>Category 1</u>	<u>Category 3</u>	<u>Total Bank Balance</u>	<u>Total Carrying Amount</u>
Checking Accounts	100,000	197,763	297,763	293,968

NOTE 5 - Investments

Investments are stated at market value. The investment risk to the Authority is negligible in that all investments and cash are either secured by FDIC insurance, secured by a pooled collateral as permitted by Act 72 of the Commonwealth of Pennsylvania, or invested in U.S. Government Securities.

The investments of the Authority at March 31, 2004 and 2003, have been categorized to indicate the level of risk assumed by the Authority. Category 1 includes investments that are insured or registered, or are held by the Authority's agent in the Authority's name. Category 2 includes uninsured and unregistered investments held by the financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments held by the financial institution's trust department or agent, but not in the Authority's name. The Authority's deposits in money market funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

The Authority's investments at March 31, 2004 and 2003, are stated at market and are classified in Category 3, or not categorized as designated below:

All operating investments are in Wachovia Business High Performance Money Market Funds. Due to the short-term nature of these money market funds, they are considered a cash equivalent.

<u>March 31, 2004</u>	<u>Non- Categorized</u>	<u>Market Value</u>	<u>Costs</u>
Investments in Wachovia: Business High Performance Money Market Funds	434,837	434,837	434,837

<u>March 31, 2003</u>	<u>Non- Categorized</u>	<u>Market Value</u>	<u>Costs</u>
Investments in Wachovia: Business High Performance Money Market Funds	823,189	823,189	823,189

All restricted asset investments with trustee are invested in certificate of deposits with a maturity date of December 1, 2006, paying 1.5% interest.

<u>March 31, 2004</u>	<u>Cost</u>	<u>Market Value</u>	<u>Interest Category</u>
Certificates of Deposit	39,576,325	39,576,325	3

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

NOTE 6 - Capital Assets

A summary of changes in capital assets for the years ending March 31, 2004 and 2003, are as follows:

	<u>Beginning Balance April 1, 2003</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance March 31, 2004</u>
Capital Assets not Being Depreciated:				
Construction in Progress	236,461	-0-	-0-	236,461
Land	<u>1,579,621</u>	<u>-0-</u>	<u>-0-</u>	<u>1,579,621</u>
<u>Total Capital Assets</u>	<u>1,816,082</u>	<u>-0-</u>	<u>-0-</u>	<u>1,816,082</u>
	<u>Beginning Balance April 1, 2002</u>	<u>Transfers and Additions</u>	<u>Ending Transfers and Deletions</u>	<u>Balance March 31, 2003</u>
Capital Assets not Being Depreciated:				
Construction in Progress	-0-	236,461	-0-	236,461
Land	<u>1,579,621</u>	<u>-0-</u>	<u>-0-</u>	<u>1,579,621</u>
<u>Total Capital Assets</u>	<u>1,579,621</u>	<u>236,461</u>	<u>-0-</u>	<u>1,816,082</u>

NOTE 7 - Lease Commitment

The Authority leases office space under an operating lease which expires June 30, 2007. Rent expense for the years ended March 31, 2004 and 2003, were \$12,788 and \$13,857, respectively.

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

2005	19,757
2006	22,485
2007	23,025
2008	5,790

NOTE 8 - Bonds Payable

Lancaster County Convention Center Authority incurred Hotel Room Rental Tax Revenue Bonds, Series of 2003 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 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; and (iv) payment of the costs and expenses of issuance of the Bonds. The 2003 Bonds are secured by a pledge of all current and future revenue derived by the Authority from its share of Hotel Room Rental Tax.

Interest rate shall be 55 basis points over the yield on balances held as collateral in the Project Funds Capitalized Interest and Debt Service Reserve Funds at Citizens Bank. Amounts borrowed which exceed the amount held as collateral shall bear interest floating at Libor plus 75 basis points.

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

NOTE 8 - Bonds Payable (Continued)

The Bonds shall continue to bear interest (interest only) at the Libor Rate until the Libor Rate Conversion Date (mandatory conversion on December 1, 2006). On the Libor Rate Conversion Date, the issuer may elect to convert the Bonds to a weekly mode or a term mode. Interest is due during the Libor Rate period on January 1, April 1, July 1, and October 1. With respect to a weekly rate (adjustable), interest is due the first business day of each month and with respect to term rate interest (fixed) interest is due each April 1 and October 1.

The County of Lancaster has guaranteed to replenish up to \$1,300,000 of Debt Service Reserve Fund draws on an annual basis.

Hotel Room Rental Tax Revenue Bonds Series of 2003. The amount of outstanding bonds at March 31, 2004, is \$40,000,000. Final Maturity is October 1, 2043.

Minimum annual debt service requirements on the 2003 Bond Issue (based on Libor rate as of March 31, 2004, being used through December 1, 2006, and estimates thereafter) are as follows:

<u>Year Ended</u>	<u>Minimum Debt Service Requirement</u>
March 31, 2005	1,828,000
March 31, 2006	1,828,000
March 31, 2007	1,996,166
March 31, 2008	2,343,926
March 31, 2009	2,440,070
April 1, 2009 - March 31, 2014	12,914,201
April 1, 2014 - March 31, 2019	12,961,940
April 1, 2019 - March 31, 2024	12,936,517
April 1, 2024 - March 31, 2029	12,916,518
April 1, 2029 - March 31, 2034	12,883,006
April 1, 2034 - March 31, 2039	12,848,587
April 1, 2039 - March 31, 2044	12,783,888
	<u>100,680,819</u>