

**LANCASTER COUNTY  
CONVENTION CENTER AUTHORITY  
YEARS ENDED MARCH 31, 2005 AND 2004**

Lancaster County Convention Center Authority

Financial Statements

Years ended March 31, 2005 and 2004

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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

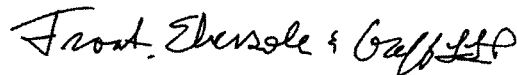
We have audited the accompanying statements of net assets of the Lancaster County Convention Center Authority, a component unit of the County of Lancaster, as of March 31, 2005 and 2004, and the related statements of income and changes in net assets, revenue and expenses, and cash flows for the years then ended. 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, 2005 and 2004 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.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The management's discussion and analysis has not been included as supplementary information.

August 27, 2005  
Lancaster, Pennsylvania



TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants



	<u>2005</u>	<u>2004</u>
<u>LIABILITIES and NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	891,580	492,043
Accrued Payroll and Payroll Taxes	<u>2,989</u>	<u>5,907</u>
<u>Total Current Liabilities</u>	<u>894,569</u>	<u>497,950</u>
<u>CURRENT LIABILITIES</u> (payable from Restricted Assets with Trustee)		
Accrued Interest Payable	<u>206,435</u>	<u>239,013</u>
<u>LONG-TERM LIABILITIES</u>		
Loan Payable	2,100,000	-0-
Bonds Payable - Series of 2003	<u>40,000,000</u>	<u>40,000,000</u>
<u>Total Current Liabilities</u>	<u>42,100,000</u>	<u>40,000,000</u>
<u>TOTAL LIABILITIES</u>	<u>43,201,004</u>	<u>40,736,963</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, net of Related Debt Unrestricted	1,836,272	1,816,082
	<u>(42,531)</u>	<u>825,527</u>
<u>TOTAL NET ASSETS</u>	<u>1,793,741</u>	<u>2,641,609</u>
<u>TOTAL LIABILITIES and NET ASSETS</u>	<u>44,994,745</u>	<u>43,378,572</u>

Lancaster County Convention Center Authority  
STATEMENTS of INCOME and CHANGES in NET ASSETS  
Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>NET ASSETS</u>		
Balance - Beginning of Year	2,641,609	2,717,069
Less: Net (Loss)	<u>(847,868)</u>	<u>(75,460)</u>
Balance - End of Year	<u>1,793,741</u>	<u>2,641,609</u>

See notes to financial statements.

Lancaster County Convention Center Authority  
STATEMENTS of REVENUE and EXPENSES  
Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Hotel Room Rental Tax Income	3,148,856	3,024,855
Other Income	27,195	4,921
<u>Total Operating Revenues</u>	<u>3,176,051</u>	<u>3,029,776</u>
<u>EXPENSES</u>		
<u>Operating Expenses</u>		
Solicitor Fees and Expense	134,516	286,687
Property Management	22,056	25,276
Executive Director and Assistant - Salary	118,794	90,243
Administrative Assistant Salary	22,478	-0-
Executive Director Expenses	6,240	1,710
Payroll Taxes	10,335	7,800
Employee Benefits	28,495	14,869
Office Lease Expense	20,532	12,788
Office Supplies and Expense	27,258	12,649
Internet and Computer Service	17,209	1,928
Building Repairs, Maintenance, and Utilities	1,156	18,261
Charitable Contributions	18,180	16,874
Accounting Fees	45,900	25,750
Appraisal Fees	1,500	15,000
Insurance	59,553	39,459
Public Relations	219,162	74,448
Telephone Expense	9,261	3,598
Advertising Notices	1,367	1,171
Trustee Fees	5,200	-0-
Depreciation	1,409	-0-
Real Estate Escrow Forfeited	10,000	-0-
Real Estate Taxes	6,336	-0-
Miscellaneous Expense	12,536	12,678
<u>Total Operating Expenses</u>	<u>799,473</u>	<u>661,189</u>
<u>Net Income Before Project Development and Pre-Construction Costs</u>	<u>2,376,578</u>	<u>2,368,587</u>
<u>Project Development and Pre-Construction Costs</u>		
Legal Fees and Expense - Litigation	-0-	390,120
Legal Fees and Expense - Real Estate/Parking Garage	293,816	173,620
Legal Fees - Negotiations	694,936	530,889
Business Advisory Fees	526,052	270,736
Construction Consulting and Management Fees	130,890	72,255
Developer Fees and Expense	269,349	630,991
Pre-Opening Sales and Marketing/Program Review	184,752	201,139
Architect Consulting and Expense	604,383	70,205
Parking Garage Consulting	84,080	-0-
Building Demolition Fees	5,240	45,548
Real Estate Due Diligence	184,152	-0-
<u>Total Project Development and Pre-Construction Costs</u>	<u>2,977,650</u>	<u>2,385,503</u>

See notes to financial statements.

Lancaster County Convention Center Authority  
STATEMENTS of REVENUE and EXPENSES

(Continued)

Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Net Operating (Loss) Before Nonoperating</u> <u>Income (Expense)</u>	<u>(601,072)</u>	<u>(16,916)</u>
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Expense	(851,567)	(239,013)
Amortization	(6,074)	(1,658)
Investment Income	<u>610,845</u>	<u>182,127</u>
<u>Net Nonoperating (Expense)</u>	<u>(246,796)</u>	<u>(58,544)</u>
<u>NET (LOSS)</u>	<u>(847,868)</u>	<u>(75,460)</u>

See notes to financial statements.



Lancaster County Convention Center Authority  
STATEMENTS of CASH FLOWS  
Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS from OPERATING ACTIVITIES</u>		
Receipts from Customers and Users	3,170,762	2,963,594
Payments to Suppliers for Operating Expenses	(627,939)	(615,725)
Payments to Suppliers for Project Development and Pre-Construction Costs	(2,609,884)	(2,326,974)
Payments to Employees	<u>(141,272)</u>	<u>(90,243)</u>
<u>Net Cash (Used) by Operating Activities</u>	<u>(208,333)</u>	<u>(69,348)</u>
<u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u>		
Purchase of Capital Assets	(2,121,599)	-0-
Bond Proceeds - Series of 2003	-0-	40,000,000
Bond Issue Costs	-0-	(423,675)
Proceeds (Payments) from Line of Credit	2,100,000	-0-
Loan Origination Fees	(21,000)	-0-
Interest Expense Paid	<u>(884,145)</u>	<u>-0-</u>
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	<u>(926,744)</u>	<u>39,576,325</u>
<u>CASH FLOWS from INVESTING ACTIVITIES</u>		
Investment Proceeds (Purchases)	222,942	(39,576,325)
Interest Income Received	<u>641,994</u>	<u>5,682</u>
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>864,936</u>	<u>(39,570,643)</u>
<u>(DECREASE) in CASH and CASH EQUIVALENTS</u>	(270,141)	(63,666)
<u>CASH and CASH EQUIVALENTS</u>		
Beginning of Year	<u>1,053,491</u>	<u>1,117,157</u>
End of Year	<u>783,350</u>	<u>1,053,491</u>

See notes to financial statements.

Lancaster County Convention Center Authority

STATEMENTS of CASH FLOWS

(Continued)

Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>RECONCILIATION of OPERATING (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES</u>		
Net Operating (Loss)	(601,072)	(16,916)
<u>ADJUSTMENTS to RECONCILE OPERATING (LOSS) to NET CASH PROVIDED by OPERATING ACTIVITIES</u>		
Depreciation	1,409	-0-
(Increase) Decrease in:		
Taxes Receivable	(5,289)	(66,182)
Increase (Decrease) in:		
Accounts Payable	399,537	9,673
Accrued Payroll and Payroll Taxes	<u>(2,918)</u>	<u>4,077</u>
<u>Net Cash (Used) by Operating Activities</u>	<u>(208,333)</u>	<u>(69,348)</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 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.

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 are to include a Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations. However, the Authority has elected not to present the Management Discussion and Analysis in these financial statements. 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:

Enterprise Fund Financial Statements:

Statements of Net Assets

Statements of Income 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 3.9% hotel room rental tax and a 1.1% excise tax from the operators of each hotel within Lancaster County. Of the total 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 - Custodial Credit Risk - Deposits

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 policy for custodial credit risk. As of March 31, 2005, \$699,225 of the Authority's bank balance of \$799,225 was exposed to custodial credit risk. At March 31, 2004, \$967,917 of the Authority's bank balance of \$1,267,917 was exposed as follows:

	<u>2005</u>	<u>2004</u>
Uninsured and collateral held by the pledging bank's trust department not in the authority's name	<u>699,225</u>	<u>967,917</u>

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

NOTE 4 - Custodial Credit Risk - Deposits (Continued)

Reconciliation to Financial Statements:

	<u>2005</u>	<u>2004</u>
Uncollateralized Amount Above	699,225	967,917
Plus: Insured Amount	100,000	300,000
Less: Outstanding Checks	<u>16,175</u>	<u>214,626</u>
Carrying Amount - Bank balances	783,050	1,053,291
Plus: Petty Cash	<u>300</u>	<u>200</u>
Total Cash per Financial Statements	<u>783,350</u>	<u>1,053,491</u>

NOTE 5 - Investments

As of March 31, 2005 and March 31, 2004, the Authority had the following investments:

March 31, 2005

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificate of Deposit	21 Months	39,353,383

March 31, 2004

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificate of Deposit	21 Months	39,576,325

**Interest Rate Risk:**

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk:**

The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in Certificates of Deposit. The Investments are 99% of the Authority's total investments.

**Custodial Credit Risk:**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The district has no investment subject to custodial credit risk.

	<u>2005</u>	<u>2004</u>
Reconciliation to Financial Statements:		
Total Investments above	39,353,383	39,576,325
Add: Interest Receivable	<u>145,295</u>	<u>176,445</u>
Total Investments per Financial Statements	<u>39,498,678</u>	<u>39,752,770</u>

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, 2005 and 2004, are as follows:

	<u>Beginning Balance April 1, 2004</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance March 31, 2005</u>
Capital Assets not Being Depreciated:				
Construction in Progress	236,461	-0-	-0-	236,461
Land	1,579,621	2,113,148	-0-	3,692,769
Capital Assets Being Depreciated:				
Furniture, Fixtures, Equipment	<u>-0-</u>	<u>8,451</u>	<u>-0-</u>	<u>8,451</u>
<u>Total Capital Assets</u>	<u>1,816,082</u>	<u>2,121,599</u>	<u>-0-</u>	<u>3,937,681</u>
	<u>Beginning Balance April 1, 2003</u>	<u>Transfers and Additions</u>	<u>Ending Transfers and Deletions</u>	<u>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>

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, 2005 and 2004, were \$20,532 and \$12,788, respectively.

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

2006	22,485
2007	22,025
2008	5,790

NOTE 8 - Note Payable

The Authority has entered into a term loan and revolving line of credit agreement with Sovereign Bank with a total borrowing limit of \$3,100,000. Proceeds were used to purchase property. The term loan expires on December 15, 2006, and the Line of credit is payable on demand. Interest is charged at the prime rate. Borrowings under this commitment are secured by the Authority's hotel tax receipts, deposit accounts, and mortgaged property. The outstanding balance of the loan at March 31, 2005, was \$2,100,000. Aggregate maturities on long-term debt at March 31, 2005, are as follows:

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

NOTE 8 - Note Payable (Continued)

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	120,750	-0-	120,750
2007	<u>92,878</u>	<u>2,100,000</u>	<u>2,192,878</u>
	<u>213,628</u>	<u>2,100,000</u>	<u>2,313,628</u>

NOTE 9 - 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.

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 (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.

The amount of outstanding Hotel Room Rental Tax Revenue Bonds, Series of 2003 at March 31, 2005 and 2004, is \$40,000,000 and \$40,000,000 respectively. Final Maturity is October 1, 2043.

Minimum annual debt service requirements on the 2003 Bond Issue (based on Libor rate as of March 31, 2005, being used through December 1, 2006, and estimates thereafter) are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
March 31, 2006	819,720	-0-	819,720
March 31, 2007	1,289,946	-0-	1,289,946
March 31, 2008	2,228,926	115,000	2,343,926
March 31, 2009	2,220,070	220,000	2,440,070
March 31, 2010	2,205,239	330,000	2,535,239
April 1, 2010 - March 31, 2015	10,677,020	2,295,000	12,972,020
April 1, 2015 - March 31, 2020	9,583,940	3,015,000	12,598,940
April 1, 2020 - March 31, 2025	8,982,980	3,950,000	12,932,980

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

NOTE 9 - Bonds Payable (Continued)

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
April 1, 2025 - March 31, 2030	7,720,918	5,190,000	12,910,918
April 1, 2030 - March 31, 2035	6,064,792	6,810,000	12,874,792
April 1, 2035 - March 31, 2040	3,889,725	8,950,000	12,839,725
April 1, 2040 - March 31, 2044	<u>1,095,040</u>	<u>9,125,000</u>	<u>10,220,040</u>
	<u>56,778,316</u>	<u>40,000,000</u>	<u>96,778,316</u>