

**LANCASTER COUNTY  
CONVENTION CENTER AUTHORITY  
YEARS ENDED MARCH 31, 2006 AND 2005**

**Lancaster County Convention Center Authority**  
**Financial Statements with Supplementary Information**  
**Years Ended March 31, 2006 and 2005**

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**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, 2006 and 2005, and the related statements of revenue and expenses and changes in net assets 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, 2006 and 2005, 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 Lancaster County Convention Center Authority has not presented Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

June 21, 2006  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*  
TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

Lancaster County Convention Center Authority  
STATEMENTS of NET ASSETS  
March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	478,738	783,350
Taxes Receivable	<u>336,441</u>	<u>339,501</u>
<u>Total Current Assets</u>	<u>815,179</u>	<u>1,122,851</u>
<u>RESTRICTED ASSETS</u>		
Investments with Trustee:		
Construction Fund	32,653,473	32,159,373
Capitalized Interest Fund	1,715,591	2,509,533
Debt Service Reserve Fund	2,694,035	2,652,285
Settlement Fund	2,063,415	2,032,192
Interest Receivable	<u>153,500</u>	<u>145,295</u>
<u>Total Restricted Assets</u>	<u>39,280,014</u>	<u>39,498,678</u>
<u>CAPITAL ASSETS</u>		
Furniture, Fixtures, and Equipment	8,451	8,451
Construction in Progress	1,824,208	236,461
Land	<u>3,692,769</u>	<u>3,692,769</u>
	5,525,428	3,937,681
Less: Accumulated Depreciation	<u>3,099</u>	<u>1,409</u>
<u>Net Capital Assets</u>	<u>5,522,329</u>	<u>3,936,272</u>
<u>OTHER ASSETS</u>		
Bond Issuance Costs - net of Amortization of \$13,216 and \$7,468 as of March 31, 2006 and 2005, Respectively	410,459	416,207
Loan Origination Fees - net of Amortization of \$1,313 and \$263 as of March 31, 2006 and 2005, Respectively	<u>19,688</u>	<u>20,737</u>
<u>Total Other Assets</u>	<u>430,147</u>	<u>436,944</u>
<u>TOTAL ASSETS</u>	<u>46,047,669</u>	<u>44,994,745</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
<b><u>LIABILITIES and NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable	1,784,109	891,580
Line of Credit	400,000	-0-
Accrued Payroll and Payroll Taxes	3,102	2,989
Note Payable	<u>2,100,000</u>	<u>2,100,000</u>
<b><u>Total Current Liabilities</u></b>	<b>4,287,211</b>	<b>2,994,569</b>
<b><u>CURRENT LIABILITIES</u> (payable from Restricted Assets with Trustee)</b>		
Accrued Interest Payable	224,633	206,435
<b><u>LONG-TERM LIABILITIES</u></b>		
Bonds Payable - Series of 2003	<u>40,000,000</u>	<u>40,000,000</u>
<b><u>TOTAL LIABILITIES</u></b>	<b><u>44,511,844</u></b>	<b><u>43,201,004</u></b>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, net of Related Debt	2,668,615	1,836,272
Unrestricted (Deficit)	<u>(1,132,790)</u>	<u>(42,531)</u>
<b><u>TOTAL NET ASSETS</u></b>	<b><u>1,535,825</u></b>	<b><u>1,793,741</u></b>
 <b><u>TOTAL LIABILITIES and NET ASSETS</u></b>	 <b><u>46,047,669</u></b>	 <b><u>44,994,745</u></b>

Lancaster County Convention Center Authority  
**STATEMENTS of REVENUE and EXPENSES and CHANGES in NET ASSETS**  
Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>OPERATING REVENUES</u></b>		
Hotel Room Rental Tax Income	3,301,204	3,148,856
Other Income	<u>76,840</u>	<u>27,195</u>
<b><u>Total Operating Revenues</u></b>	<b><u>3,378,044</u></b>	<b><u>3,176,051</u></b>
<b><u>EXPENSES</u></b>		
Operating Expenses	833,031	799,473
Project Development and Pre-Construction Costs	<u>2,545,023</u>	<u>2,977,650</u>
<b><u>Total Expenses</u></b>	<b><u>3,378,054</u></b>	<b><u>3,777,123</u></b>
<b><u>Net Operating (Loss) Before Nonoperating Income (Expense)</u></b>	<b><u>(10)</u></b>	<b><u>(601,072)</u></b>
<b><u>NONOPERATING INCOME (EXPENSE)</u></b>		
Interest Expense	(889,889)	(851,567)
Amortization	(6,798)	(6,074)
Investment Income	<u>638,781</u>	<u>610,845</u>
<b><u>Net Nonoperating (Expense)</u></b>	<b><u>(257,906)</u></b>	<b><u>(246,796)</u></b>
<b><u>NET (LOSS)</u></b>	<b><u>(257,916)</u></b>	<b><u>(847,868)</u></b>
<b><u>CHANGES in NET ASSETS</u></b>		
Net Assets - Beginning of Year	<u>1,793,741</u>	<u>2,641,609</u>
Net Assets - End of Year	<b><u>1,535,825</u></b>	<b><u>1,793,741</u></b>

See notes to financial statements.

Lancaster County Convention Center Authority  
STATEMENTS of CASH FLOWS  
Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>CASH FLOWS from OPERATING ACTIVITIES</u></b>		
Receipts from Customers and Users	3,381,104	3,170,762
Payments to Suppliers for Operating Expenses	(457,884)	(627,939)
Payments to Suppliers for Project Development and Pre-Construction Costs	(1,873,487)	(2,609,884)
Payments to Employees	(152,351)	(141,272)
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>	<b><u>897,382</u></b>	<b><u>(208,333)</u></b>
<b><u>CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES</u></b>		
Purchase of Capital Assets	(1,587,747)	(2,121,599)
Proceeds from Line of Credit	400,000	-0-
Proceeds from Note Payable	-0-	2,100,000
Loan Origination Fees	-0-	(21,000)
Interest Expense Paid	(871,691)	(884,145)
<b><u>Net Cash (Used) by Capital and Related Financing Activities</u></b>	<b><u>(2,059,438)</u></b>	<b><u>(926,744)</u></b>
<b><u>CASH FLOWS from INVESTING ACTIVITIES</u></b>		
Investment Proceeds	226,869	222,942
Interest Income Received	630,575	641,994
<b><u>Net Cash Provided by Investing Activities</u></b>	<b><u>857,444</u></b>	<b><u>864,936</u></b>
<b><u>(DECREASE) in CASH and CASH EQUIVALENTS</u></b>	<b><u>(304,612)</u></b>	<b><u>(270,141)</u></b>
<b><u>CASH and CASH EQUIVALENTS</u></b>		
Beginning of Year	783,350	1,053,491
End of Year	<u>478,738</u>	<u>783,350</u>

See notes to financial statements.

Lancaster County Convention Center Authority  
STATEMENTS of CASH FLOWS  
(Continued)  
Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION of OPERATING (LOSS) to NET</u> <u>CASH PROVIDED (USED) by OPERATING ACTIVITIES</u>		
Net Operating (Loss)	(10)	(601,072)
<u>ADJUSTMENTS to RECONCILE OPERATING (LOSS) to</u> <u>NET CASH PROVIDED (USED) by OPERATING ACTIVITIES</u>		
Depreciation	1,690	1,409
(Increase) Decrease in:		
Taxes Receivable	3,060	(5,289)
Increase (Decrease) in:		
Accounts Payable	892,529	399,537
Accrued Payroll and Payroll Taxes	<u>113</u>	<u>(2,918)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>897,382</u>	<u>(208,333)</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.

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

**NOTE 1 - Significant Accounting Policies (Continued)**

**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.

**Operating Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Authority's principal ongoing operations. The principal operating revenue of the Authority is hotel room rental tax. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets that are in service. All revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses.

**Restricted and Unrestricted Resources**

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

**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. 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 Revenue and 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 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. Revenue is recognized at the time the lodging establishments collect the tax from guests.

**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 of the Lancaster County Convention Center. This revenue will not be recognized until funding is approved, and final approval from the state is received.

**NOTE 4 - Cash and Investments**

**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 the Authority. The Authority does not have a policy for custodial credit risk. As of March 31, 2006, \$379,318 of the Authority's bank balance of \$478,538, and as of March 31, 2005, \$699,225 of the Authority's bank balance of \$783,050, were exposed to custodial credit risk as follows:

	<u>2006</u>	<u>2005</u>
Uninsured and collateral held by the pledging bank's trust department not in the Authority's name	<u>379,318</u>	<u>699,225</u>
Reconciliation to Financial Statements:		
	<u>2006</u>	<u>2005</u>
Uninsured Amount Above	379,318	699,225
Plus: Insured Amount	100,000	100,000
Less: Outstanding Checks	<u>780</u>	<u>16,175</u>
Carrying Amount - Bank Balances	478,538	783,050
Plus: Petty Cash	<u>200</u>	<u>300</u>
Total Cash per Financial Statements	<u>478,738</u>	<u>783,350</u>

**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, and 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. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy for the Authority adheres to state statutes and prudent business practice. Government funds' amounts are either maintained in demand deposits or Certificates of Deposit.

As of March 31, 2006 and March 31, 2005, the Authority had the following investments:

**March 31, 2006**

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificate of Deposit	21 Months	39,126,514

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

**NOTE 4 - Cash and Investments (Continued)**

**Investments (Continued)**

March 31, 2005

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

**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 it 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 Authority has no investment subject to custodial credit risk.

Earnings on the investment accounts are restricted for the purposes of construction costs or paying down debt per the bond indenture.

<u>Reconciliation to Financial Statements:</u>	<u>2006</u>	<u>2005</u>
Total Investments Above	39,126,514	39,353,383
Add: Interest Receivable	<u>153,500</u>	<u>145,295</u>
Total Investments per Financial Statements	<u>39,280,014</u>	<u>39,498,678</u>

**NOTE 5 - Capital Assets**

Capital assets, which include furniture, fixtures, equipment, and construction in progress, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Furniture, fixtures, and equipment are depreciated using the straight-line method over an estimated useful life of five years.

For financial statement purposes, construction costs incurred in the preliminary phase have been expensed. Construction costs incurred in the pre-construction and construction phase will be capitalized. It was determined by Board Resolution that the pre-construction phase began July 28, 2005.

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

**NOTE 5 - Capital Assets (Continued)**

A summary of changes in capital assets for the years ending March 31, 2006 and 2005, is as follows:

	<u>Beginning Balance April 1, 2005</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance March 31, 2006</u>
Capital Assets not Being Depreciated:				
Construction in Progress	236,461	1,587,747	-0-	1,824,208
Land	<u>3,692,769</u>	<u>-0-</u>	<u>-0-</u>	<u>3,692,769</u>
	<u>3,929,230</u>	<u>1,587,747</u>	<u>-0-</u>	<u>5,516,977</u>
Capital Assets Being Depreciated:				
Furniture, Fixtures, Equipment	8,451	-0-	-0-	8,451
Total Accumulated Depreciation:				
Furniture, Fixtures, Equipment	<u>1,409</u>	<u>1,690</u>	<u>-0-</u>	<u>3,099</u>
Net Capital Assets Being Depreciated				<u>5,352</u>
<u>Net Capital Assets</u>				<u>5,522,329</u>
	<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	<u>1,579,621</u>	<u>2,113,148</u>	<u>-0-</u>	<u>3,692,769</u>
	<u>1,816,082</u>	<u>2,113,148</u>	<u>-0-</u>	<u>3,929,230</u>

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

NOTE 5 - Capital Assets (Continued)

	<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 Being Depreciated:				
Furniture, Fixtures, Equipment	-0-	8,451	-0-	8,451
Total Accumulated Depreciation:				
Furniture, Fixtures, Equipment	-0-	1,409	-0-	1,409
Net Capital Assets Being Depreciated				7,042
<u>Net Capital Assets</u>				<u>3,936,272</u>

NOTE 6 - Lease Commitment

The Authority leases office space under an operating lease which expires June 30, 2007. Rent expense for the years ended March 31, 2006 and 2005, was \$22,530 and \$20,532, respectively.

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

2007	22,025
2008	5,790

The Authority leases a copier under an operating lease which expires March 7, 2008. Rent expense for the years ended March 31, 2006 and 2005, was \$4,755 and \$-0-, respectively.

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

2007	4,320
2008	4,320

NOTE 7 - 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 of the term loan were used to purchase property. Proceeds of the line of credit were used for operating expenses. The term loan expires on December 15, 2006, and the line of credit is payable on demand. Interest on the term loan is charged at the prime rate which was 7.75% at March 31, 2006. Interest on the line of credit is charged at the prime based rate which was 7.25% at March 31, 2006. Borrowings under these commitments are secured by the Authority's hotel tax receipts, deposit accounts, and mortgaged property.

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

**NOTE 7 - Note Payable (Continued)**

During the year ended March 31, 2006, the following changes occurred in Notes Payable:

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>March 31, 2006</u>
Term Loan	2,100,000	-0-	-0-	2,100,000
Line of Credit	<u>-0-</u>	<u>1,000,000</u>	<u>600,000</u>	<u>400,000</u>
	<u>2,100,000</u>	<u>1,000,000</u>	<u>600,000</u>	<u>2,500,000</u>

**NOTE 8 - Bonds Payable**

Lancaster County Convention Center Authority incurred Hotel Room Rental Tax Revenue Bonds, Series of 2003, (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 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 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 adjustable Libor rate at March 31, 2006 was 2.115769%.

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, 2006 and 2005, is \$40,000,000 and \$40,000,000, respectively. Final maturity is October 1, 2043.

During the year ended March 31, 2006, the following changes occurred in Bonds Payable:

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>March 31, 2006</u>
Bonds Payable	40,000,000	-0-	-0-	40,000,000

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

**NOTE 8 - Bonds Payable (Continued)**

Minimum annual debt service requirements on the Bonds (based on Libor rate as of March 31, 2006, 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, 2007	854,431	-0-	854,431
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
March 31, 2011	2,184,969	410,000	2,594,969
April 1, 2011 - March 31, 2016	10,545,960	2,425,000	12,970,960
April 1, 2016 - March 31, 2021	9,771,898	3,180,000	12,951,898
April 1, 2021 - March 31, 2026	8,757,379	4,175,000	12,932,379
April 1, 2026 - March 31, 2031	7,424,606	5,480,000	12,904,606
April 1, 2031 - March 31, 2036	5,676,028	7,190,000	12,866,028
April 1, 2036 - March 31, 2041	3,378,782	9,450,000	12,828,782
April 1, 2041 - March 31, 2044	<u>634,774</u>	<u>7,025,000</u>	<u>7,659,774</u>
	<u>55,883,062</u>	<u>40,000,000</u>	<u>95,883,062</u>

**NOTE 9 - Net Assets**

**Restricted Net Assets**

The restricted net assets represents funds held at Trustee Bank derived from the proceeds of the Hotel Room Rental Tax Revenue Bonds, Series of 2003. The funds are restricted for payment of construction costs, debt service payments, and settlement costs on subsequent bond issues used to retire the Series of 2003 Bond Issue.

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Investments with Trustee Bank	39,126,514	39,353,383
Interest Receivable on Trustee Investments	<u>153,500</u>	<u>145,295</u>
<b><u>Total Restricted Assets</u></b>	<b>39,280,014</b>	<b>39,498,678</b>
Less: Bonds Payable - Series of 2003	40,000,000	40,000,000
Accrued Interest from Restricted Assets with Trustee	<u>224,633</u>	<u>206,435</u>
<b><u>Restricted Net Assets (Deficit)</u></b>	<b><u>(944,619)</u></b>	<b><u>(707,757)</u></b>

\*Negative balances (deficit) in restricted net assets are required to be shown as a component of unrestricted net assets.

Restricted Net Assets (Deficit)	(944,619)	(707,757)
Unrestricted Net Assets (Deficit)	<u>(188,171)</u>	<u>665,226</u>
<b><u>Total Unrestricted Net Assets (Deficit)</u></b>	<b><u>(1,132,790)</u></b>	<b><u>(42,531)</u></b>



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

**NOTE 9 - Net Assets (Continued)**

**Invested in Capital Assets, Net of Related Debt**

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Capital Assets, net of Accumulated Depreciation	5,522,329	3,936,272
Less: Related Debt:		
Note Payable	2,100,000	2,100,000
Accounts Payable for Capital Assets	<u>753,714</u>	<u>-0-</u>
<b><u>Total Invested in Capital Assets</u></b>		
<b><u>Net of Related Debt</u></b>	<b><u>2,668,615</u></b>	<b><u>1,836,272</u></b>

**NOTE 10 - Risk Management**

The Authority maintains insurance contracts to deal with the risk of loss arising from the following events: torts, theft of, damage to, or destruction of 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.

During the years ended March 31, 2006 and 2005, no settlements exceeded insurance coverage.

**NOTE 11 - Subsequent Events**

**Lawsuits**

The Lancaster County Commissioners adopted resolutions Nos. 36 and 37 in May 2006, indicating that the County seeks to revoke the County guaranty in place on the \$40 million Lancaster County Convention Center Authority construction bonds covered in the County Bond Debt Guaranty Agreement, if the bonds are remarketed as planned.

The Lancaster County Commissioners also passed a resolution in May 2006, to study whether the area in which the now-countywide hotel room tax is charged, should be limited to only include City of Lancaster hotels and motels. The Authority currently collects in excess of \$3 million dollars annually in hotel tax revenue on hotels and motels located throughout Lancaster County. Reducing the area to include only hotels and motels located within the City of Lancaster would reduce this funding source to a negligible amount.

The Lancaster County Convention Center Authority filed suit on June 13, 2006, seeking judicial review, relief, and a preliminary injunction to prevent the County Commissioners from acting on the resolutions mentioned above. The suit also asks for relief to overcome the defendants' continuing pattern of opposition, interference and attempts to usurp the activities of the Authority in fulfilling its singular statutory mission so as to allow the Authority to advance the timely financing, construction, and completion of a convention center in downtown Lancaster.

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

NOTE 11 - Subsequent Events (Continued)

The Lancaster County Commissioners filed a lawsuit in June 2006, in an effort to stop the state from helping to fund the convention center-hotel planned for Penn Square. The lawsuit asks the court to block a \$20 million state grant. The lawsuit challenges the constitutionality of recent changes made to Act 23, a state law that will be used to provide \$20 million towards the public-private project. Act 23 allows property developers to promise use of projected income and sales taxes that would be generated by a retail operation, such as a hotel, to pay back state loans to the project. Based on projected income and sales tax revenues, the State Department of Community and Economic Development would grant a \$20 million loan to the Redevelopment Authority of the City of Lancaster, to be used to help finance the construction of the hotel. The hotel project is a joint venture between the Redevelopment Authority of the City of Lancaster and Penn Square Partners. Penn Square Partners is made up of Penn Square General Corp., an affiliate of High Associates; Fulton Bank; and Lancaster Newspapers, Inc. The Redevelopment Authority of the City of Lancaster and Penn Square Partners joined with the Lancaster County Convention Center Authority in filing the suit against the County of Lancaster and the County Commissioners on June 13, 2006.

At this time, the outcome of these suits cannot be determined.

Funding Shortfall

The total projected price for the combined project, both convention center and adjoining hotel, was estimated to be approximately \$139.8 million. After receiving the base bids on construction contracts in May 2006, the total project came in \$22.6 million over original estimates. The Lancaster County Convention Center Authority along with the Redevelopment Authority of the City of Lancaster and Penn Square Partners have begun assessing re-engineering and re-bidding certain contracts (mainly contracts where only one company bid during the first round of bidding) in an effort to lower costs. In order to proceed with the project, the funding shortfall will have to be eliminated with lower construction costs and/or additional sources of funding.

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**INDEPENDENT AUDITORS' REPORT on SUPPLEMENTARY INFORMATION**

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

Our report on our audits of the financial statements of Lancaster County Convention Center Authority, a component unit of the County of Lancaster, as of March 31, 2006 and 2005, appears on page one. Those audits were made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The schedules of revenue and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

June 21, 2006  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*  
TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

Lancaster County Convention Center Authority  
SCHEDULES of REVENUE and EXPENSES  
Years Ended March 31, 2006 and 2005

OPERATING REVENUES

	<u>2006</u>	<u>2005</u>
Hotel Room Rental Tax Income	3,301,204	3,148,856
Other Income	76,840	27,195
<u>Total Operating Revenues</u>	<u>3,378,044</u>	<u>3,176,051</u>

EXPENSES

Operating Expenses

Solicitor Fees and Expense	204,455	134,516
Property Management	34,781	22,056
Executive Director and Assistant - Salary	129,078	118,794
Administrative Assistant Salary	23,273	22,478
Executive Director Expenses, Employee Mileage and Travel	7,934	6,240
Payroll Taxes	11,476	10,335
Employee Benefits	19,836	28,495
Office Lease Expense	22,530	20,532
Office Supplies and Expense	27,429	27,258
Internet and Computer Service	2,827	17,209
Building Repairs, Maintenance, and Utilities	635	1,156
Charitable Contributions	10,284	18,180
Accounting Fees	38,500	45,900
Appraisal Fees	-0-	1,500
Insurance	99,116	59,553
Public Relations	156,811	219,162
Telephone Expense	9,002	9,261
Advertising Notices	5,092	1,367
Trustee Fees	5,200	5,200
Depreciation	1,690	1,409
Real Estate Escrow Forfeited	-0-	10,000
Real Estate Taxes	11,744	6,336
Miscellaneous Expense	11,338	12,536
<u>Total Operating Expenses</u>	<u>833,031</u>	<u>799,473</u>

<u>Net Income Before Project Development and Pre-Construction Costs</u>	<u>2,545,013</u>	<u>2,376,578</u>
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Project Development and Pre-Construction Costs

Legal Fees and Expense - Litigation	26,767	-0-
Legal Fees and Expense - Real Estate/Parking Garage	104,890	293,816
Legal Fees - Negotiations	563,522	694,936
Legal Fees - Redevelopment Authority of the City of Lancaster	54,537	-0-
Legal Fees - Special Counsel	180,082	-0-
Legal Fees - DCED Complaint	39,689	-0-
Legal Fees - Other	53,472	-0-

See auditor's report on supplementary information.

Lancaster County Convention Center Authority  
SCHEDULES of REVENUE and EXPENSES  
(Continued)  
Years Ended March 31, 2006 and 2005

<u>EXPENSES (Continued)</u>	<u>2006</u>	<u>2005</u>
<u>Project Development and Pre-Construction Costs (Continued)</u>		
Business Advisory Fees	? 755,649	526,052
Construction Consulting and Management Fees	147,838	130,890
Developer Fees and Expense	67,502	269,349
Pre-Opening Sales and Marketing/Program Review	? 200,900	184,752
Architect Consulting and Expense	303,635	604,383
Parking Garage Consulting	1,800	84,080
Building Demolition Fees	-0-	5,240
Real Estate Due Diligence	2,500	184,152
Survey Fees	42,240	-0-
<u>Total Project Development and Pre-Construction Costs</u>	<u>2,545,023</u>	<u>2,977,650</u>
<u>Net Operating (Loss) Before Nonoperating</u>		
<u>Income (Expense)</u>	<u>(10)</u>	<u>(601,072)</u>
<u>NONOPERATING INCOME (EXPENSE)</u>		
Interest Expense	(889,889)	(851,567)
Amortization	(6,798)	(6,074)
Investment Income	638,781	610,845
<u>Net Nonoperating (Expense)</u>	<u>(257,906)</u>	<u>(246,796)</u>
<u>NET (LOSS)</u>	<u>(257,916)</u>	<u>(847,868)</u>

See auditor's report on supplementary information.