

**Lancaster County Convention  
Center Authority**

Financial Statements with  
Supplementary Information

Years Ended December 31, 2017 and 2016  
with Independent Auditor's Report

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

YEARS ENDED DECEMBER 31, 2017 AND 2016

## TABLE OF CONTENTS

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### Independent Auditor's Report

#### Financial Statements:

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

#### Supplementary Information:

Combining Balance Sheet	30
Combining Schedule of Revenues, Expenses, and Changes in Net Position	32
Schedule of Expenses	33

## Independent Auditor's Report

**Board of Directors  
Lancaster County Convention  
Center Authority**

We have audited the accompanying 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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the 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 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.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information on pages 30 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maher Duessel*

Harrisburg, Pennsylvania  
March 29, 2018

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

<b>Assets</b>	2017	2016
Current assets:		
Cash and cash equivalents	\$ 2,303,653	\$ 2,035,048
Receivables:		
Taxes	963,386	824,975
Other	72,696	72,310
Due from Interstate Hotels & Resorts	-	13,168
Inventory	13,808	7,756
Other prepaid expenses	57,323	55,380
Total current assets	3,410,866	3,008,637
Restricted assets:		
Cash and investments	10,506,232	10,920,607
Current portion of accounts receivable - Redevelopment Authority of the City of Lancaster	100,000	100,000
Total restricted assets	10,606,232	11,020,607
Capital assets:		
Land	1,579,621	1,579,621
Building	75,269,320	75,266,497
Furniture, fixtures, and equipment:		
Convention Center	5,057,427	4,138,789
Penn Square Condominium Association	441,931	441,931
Office	36,865	36,865
	82,385,164	81,463,703
Less: accumulated depreciation	20,324,169	18,366,841
Net capital assets	62,060,995	63,096,862
Other restricted assets:		
Accounts receivable - Lancaster CRIZ Authority	1,800,000	2,600,000
Accounts receivable - Redevelopment Authority of the City of Lancaster	250,000	350,000
Total other restricted assets	2,050,000	2,950,000
<b>Total Assets</b>	<b>\$ 78,128,093</b>	<b>\$ 80,076,106</b>

(Continued)

<b>Liabilities and Net Position</b>	<u>2017</u>	<u>2016</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 8,613	\$ 95,200
Accrued payroll and payroll expense	9,203	8,911
Other accrued expenses	258,230	366,723
Due to Interstate Hotels & Resorts	188,000	-
Current portion of bonds payable	510,000	460,000
Unearned revenue	235,374	116,390
Contingency fee payable	50,000	50,000
Total current liabilities	<u>1,259,420</u>	<u>1,097,224</u>
Current liabilities (payable from restricted assets):		
Accrued interest payable	232,597	234,712
Due to Discover Lancaster	1,247,973	1,240,524
Total current liabilities (payable from restricted assets)	<u>1,480,570</u>	<u>1,475,236</u>
Long-term liabilities:		
Reimbursement for contingency payable	500,000	550,000
Bonds payable	60,845,000	61,355,000
Interest rate swap liability	3,012,196	3,588,082
Swap borrowing, net of accumulated amortization of \$4,135,168 and \$3,473,541	17,667,855	18,329,482
Total long-term liabilities	<u>82,025,051</u>	<u>83,822,564</u>
Total Liabilities	<u>84,765,041</u>	<u>86,395,024</u>
<b>Net Position:</b>		
Net investment in capital assets	4,617,899	5,126,467
Restricted	6,946,355	8,285,478
Unrestricted	(18,201,202)	(19,730,863)
Total Net Position	<u>(6,636,948)</u>	<u>(6,318,918)</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 78,128,093</u></u>	<u><u>\$ 80,076,106</u></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 POSITION

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Operating Revenues:</b>		
Conference services	\$ 1,813,374	\$ 1,714,506
Concession	180,616	154,042
Other	6,657	16,422
Total operating revenues	2,000,647	1,884,970
<b>Operating Expenses:</b>		
Departmental expenses	811,970	716,778
Undistributed operating expenses	1,672,300	1,666,778
Management fees	187,350	183,870
Fixed charges	79,619	71,928
Capital/development costs	8,397	8,086
Total operating expenses	2,759,636	2,647,440
<b>Other Operating Expenses:</b>		
Administrative expenses	393,833	508,275
Collaboration Agreement - Marketing Consortium	305,791	282,046
Depreciation	2,457,801	2,445,332
Total other operating expenses	3,157,425	3,235,653
<b>Operating Loss</b>	(3,916,414)	(3,998,123)
<b>Non-Operating Revenues (Expenses):</b>		
Hotel room rental tax income, net of \$1,247,973 and \$1,240,524 as required by the Collaboration Agreement	5,130,304	4,952,212
Investment income	31,717	7,654
Collaboration agreement:		
Marketing Consortium funding	-	550,000
FF&E funding	-	4,000,000
Other income	42,807	69,334
Loss on disposal of asset	(83,877)	(7,385)
Interest expense, net of amortization of swap borrowings of \$661,627 and \$661,627	(2,098,453)	(2,112,053)
Change in fair value of interest rate swap	575,886	507,906
Total non-operating revenues (expenses)	3,598,384	7,967,668
<b>Change in Net Position</b>	(318,030)	3,969,545
<b>Net Position:</b>		
Beginning of period	(6,318,918)	(10,288,463)
End of period	\$ (6,636,948)	\$ (6,318,918)

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

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Operating receipts	\$ 2,069,245	\$ 1,813,440
Payments to suppliers for operating expenses	(3,230,964)	(3,018,994)
Payments to suppliers for project development costs	(8,397)	(8,086)
Payments to employees	(221,514)	(214,266)
Net cash used in operating activities	(1,391,630)	(1,427,906)
<b>Cash Flows From Noncapital Financing Activities:</b>		
Marketing Consortium contribution	100,000	100,000
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchase of capital assets	(1,505,811)	(184,876)
Principal payments on bonds payable	(460,000)	(410,000)
Receipts from hotel room rental tax	6,239,866	6,202,621
Payment to Discover Lancaster	(1,240,524)	-
Collaboration Agreement - FF&E funding	800,000	1,400,000
Other receipts	42,807	69,334
Interest expense paid	(2,762,195)	(2,775,535)
Deposits to accounts restricted for capital replacement	-	(1,222,664)
Withdrawals from accounts restricted for capital replacement	386,802	-
Net cash provided by capital and related financing activities	1,500,945	3,078,880
<b>Cash Flows From Investing Activities:</b>		
Proceeds from the sale of investments	18,223,900	10,878,498
Purchase of investments	(18,196,327)	(12,409,932)
Interest income received	31,717	7,654
Net cash provided by (used in) investing activities	59,290	(1,523,780)
<b>Net Increase in Cash and Cash Equivalents</b>	268,605	227,194
<b>Cash and Cash Equivalents:</b>		
Beginning of period	2,035,048	1,807,854
End of period	\$ 2,303,653	\$ 2,035,048

(Continued)



**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(Continued)

	2017	2016
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	\$ (3,916,414)	\$ (3,998,123)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,457,801	2,445,332
(Increase) decrease in:		
Other receivables	(386)	(17,885)
Due from Interstate Hotels & Resorts	13,168	4,900
Inventory	(6,052)	(1,818)
Other prepaid expenses	(1,943)	4,663
Increase (decrease) in:		
Accounts payable	(86,587)	58,718
Accrued payroll and payroll expenses	292	1,244
Contingency fee payable	(50,000)	(50,000)
Other accrued expenses	(108,493)	128,708
Due to Interstate Hotels & Resorts	188,000	-
Unearned revenue	118,984	(3,645)
Total adjustments	2,524,784	2,570,217
Net cash used in operating activities	\$ (1,391,630)	\$ (1,427,906)
		(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, 2017 AND 2016

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### 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 Municipality Authorities 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 operation of convention center facilities 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 or (2) the nature and significance of the relationship between the entity and a primary government are such that to exclude the separate legal 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 are required to be included based on the above criteria.

A business plan was developed, which allowed the construction of the Lancaster County Convention Center (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 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 the

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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period commencing with the opening of the convention center and expiring on June 19, 2019.

Penn Square Partners (PSP) and the Authority agreed to an amended and restated declaration of Condominium in April 2017, in which the Authority agreed to permit the new Marriott Tower to be included into the Penn Square Condominium Association. Construction on the new Marriott Tower began in 2017.

### 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.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Authority measures and reports all assets, liabilities, revenues, expense, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Net position (i.e., total assets net of total liabilities) is segregated into "Net Investment in Capital Assets"; "Restricted" for various purposes; and "Unrestricted" components.

The Authority is a member of the Penn Square Condominium Association, which is comprised of two ownership groups. The other ownership group is PSP, 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 purchased with a maturity of three months or less to be cash equivalents.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### Investments

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.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

### Restricted Assets

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

### Capital Assets

Capital assets are carried at cost, if purchased or constructed. 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 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	3-10 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.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### Unearned Revenue

Unearned revenue represents deposits received by the Authority for future events. These deposits will be recognized as revenue in the period in which the event occurs.

### Net Position

Net position comprises the various net earnings from operating and non-operating revenues and expenses and contributions of capital. Net position is classified in the following three components: Net investment in capital assets; restricted for various purposes; and unrestricted net position.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at the end of the reporting period, the portion of the debt attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent amount.

The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

### 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.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 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 and incentive fees, Collaboration Agreement – Marketing Consortium, fixed charges, administrative expenses, and depreciation. 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, administration and general, 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% was originally allocated to Discover Lancaster (formerly known as the Pennsylvania Dutch Convention and Visitors Bureau) to be used to promote tourism in the County, and 80% was received by the Authority to be used for construction and operation of the convention center facility. If the Authority encountered 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 Discover Lancaster would be diverted to the trustee of the Authority's Bonds. Revenue was recognized in the period to which the County attributed collection.

As discussed in Note 14, Discover Lancaster, the County, the City of Lancaster (City), the Redevelopment Authority of the City of Lancaster (RACL), the Lancaster City Revitalization and Improvement Zone Authority (Lancaster CRIZ Authority), and the Authority entered into a Collaboration Agreement. Under the Collaboration Agreement, Discover Lancaster agreed to direct 100% of the hotel room rental tax revenue to the Authority for the period

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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July 2014 through June 2019. As of December 31, 2016 and each December 31 thereafter, if the Authority's funds on deposit with the trustee under the terms of the indenture exceed \$5,750,000 after all obligations have been paid, the Authority shall remit the lesser of any funds in excess of \$5,750,000 or 20% of the year's hotel room rental tax revenue by January 15 of the following year to Discover Lancaster. For the years ended December 31, 2017 and 2016, the Authority's funds on deposit exceeded the established thresholds and \$1,247,973 and \$1,240,524, respectively, of the hotel room rental tax revenue was payable to Discover Lancaster under the terms of the Collaboration Agreement. Beginning in July 2019, the terms of the Lancaster County Ordinance No. 45 shall again govern the distribution of the hotel room rental tax revenue.

### **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. government obligations, short term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes allow the pooling of governmental funds for investment purposes.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 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, 2017, the book balance of the Authority was \$5,335,030 and the bank balance was \$5,309,712. At December 31, 2017, the book balance included \$3,031,377 and the bank balance included \$3,173,292 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. As of December 31, 2016, the book balance of the Authority was \$9,395,600 and the bank balance was \$9,330,123. At December 31, 2016, the book balance included \$7,360,552 and the bank balance included \$7,387,427 of cash held with a trustee or others that is presented as restricted cash and investments on the balance sheet. Of the bank balances, \$500,000 and \$750,000 was covered by federal depository insurance at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, 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 of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

### Investments

The Authority's investments are considered Level 1 based on quoted market prices. Restricted investments of the Authority at December 31 were as follows:

	<u>2017</u>	<u>2016</u>
Money market funds	<u>\$ 7,474,855</u>	<u>\$ 3,560,055</u>

*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. The Authority's investments in money market funds are not exposed to custodial credit risk because they are not evidenced by securities in book entry or paper form.

*Concentration of Credit Risk* - The Authority places no limit on the amount the Authority may invest in any one issuer. At December 31, 2017 and 2016, there were no investments held by the Authority that were subject to concentration of credit risk.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

*Credit Risk* – With the exception of investments held in the debt service reserve fund, the Authority has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2017 and 2016, the Authority's investments in money market funds were rated AAAM by Standard & Poor's.

*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. At December 31, 2017 and 2016, all of the Authority's investments had an average maturity of less than one year.

### 5. Capital Assets

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

	Beginning Balance 1/1/2017	Additions	Disposals	Ending Balance 12/31/2017
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>1,579,621</u>
Capital assets being depreciated:				
Building	75,266,497	2,823	-	75,269,320
Furniture, fixtures, and equipment:				
Convention Center	4,138,789	1,502,988	(584,350)	5,057,427
Penn Square Condominium Association	441,931	-	-	441,931
Office	36,865	-	-	36,865
Total capital assets, being depreciated	<u>79,884,082</u>	<u>1,505,811</u>	<u>(584,350)</u>	<u>80,805,543</u>
Less accumulated depreciation for:				
Building	14,877,347	1,972,214	-	16,849,561
Furniture, fixtures, and equipment	3,489,494	485,587	(500,473)	3,474,608
Total accumulated depreciation	<u>18,366,841</u>	<u>2,457,801</u>	<u>(500,473)</u>	<u>20,324,169</u>
Total capital assets being depreciated, net	<u>61,517,241</u>	<u>(951,990)</u>	<u>(83,877)</u>	<u>60,481,374</u>
Total capital assets, net	<u>\$ 63,096,862</u>	<u>\$ (951,990)</u>	<u>\$ (83,877)</u>	<u>\$ 62,060,995</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Beginning Balance 1/1/2016	Additions	Disposals	Ending Balance 12/31/2016
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>1,579,621</u>
Capital assets being depreciated:				
Building	75,113,954	152,543	-	75,266,497
Furniture, fixtures, and equipment:				
Convention Center	4,118,490	32,333	(12,034)	4,138,789
Penn Square Condominium Association	441,931	-	-	441,931
Office	36,865	-	-	36,865
Total capital assets, being depreciated	<u>79,711,240</u>	<u>184,876</u>	<u>(12,034)</u>	<u>79,884,082</u>
Less accumulated depreciation for:				
Building	12,911,209	1,966,138	-	14,877,347
Furniture, fixtures, and equipment	3,014,949	479,194	(4,649)	3,489,494
Total accumulated depreciation	<u>15,926,158</u>	<u>2,445,332</u>	<u>(4,649)</u>	<u>18,366,841</u>
Total capital assets being depreciated, net	<u>63,785,082</u>	<u>(2,260,456)</u>	<u>(7,385)</u>	<u>61,517,241</u>
Total capital assets, net	<u>\$ 65,364,703</u>	<u>\$ (2,260,456)</u>	<u>\$ (7,385)</u>	<u>\$ 63,096,862</u>

### 6. Contingency Fee Payable

Per the second amendment to the Joint Development Agreement among the Authority, the RACL, and PSP, the Authority is to pay \$700,000 to PSP to reimburse the RACL/PSP contingency provided under the agreement. RACL/PSP agrees 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 made the first annual payment in March 2015. The Authority paid PSP \$50,000 and \$50,000 during the years ended December 31, 2017 and 2016, respectively.

### 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),

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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(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 were 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 had 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 were to be held by the Bank until the mandatory purchase date of March 1, 2013, at which time the Bonds were 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 was to cause the Bonds to be remarketed to the Bank or to new investors at any of the interest rate options provided in the Agreement.

The Bank extended the mandatory purchase date related to the Bonds to August 1, 2014. All other provisions of the Agreement remained in effect through the mandatory purchase date.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Under the Agreement, the interest rate was converted from the Weekly Rate to the Index Interest Rate. The Bonds were to 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 October 3, 2011. The Applicable Spread effective from October 3, 2011 through February 28, 2012 was 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 increased to 175 basis points on the Series of 2003 Bonds and 190 basis points on the Series of 2007 Bonds. The Applicable Spread could be reduced if the Authority was able to accomplish certain milestones as set forth in the Agreement. At the option of the Authority, the Bonds could have been 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.

On August 1, 2014, the Bonds were refunded through the issuance of the Hotel Room Rental Tax Revenue Bonds, Series of 2014 (2014 Bonds) in the amount of \$62,595,000. The fee received from the termination of the guaranteed investment contracts, including accrued interest, along with funds realized from a reduction in the debt service reserve fund requirements associated with the 2014 Bonds totaling \$995,000, was used to pay a portion of the principal due on the Bonds. In addition, the debt service reserve requirement for the 2014 Bonds was reduced from \$4.1 million to \$3.9 million. The 2014 Bonds are subject to mandatory tender on July 31, 2019.

The 2014 Bonds initially bear interest, through the mandatory tender date, at a rate equal to the sum of the index rate, SIFMA or 70% of LIBOR, plus the Applicable Spread, initially 75 basis points, fixed for five years. The 2014 Bonds will bear interest at the index rate during the index rate period provided no event of default has occurred. At the option of the Authority, the 2014 Bonds may be optionally redeemed or converted to another interest rate mode to be effective on any LIBOR reset date prior to the mandatory tender date upon 60 days written notice to the Bank and compliance with the applicable provisions of the related documents. The 2014 Bonds debt service payments are guaranteed by the County.

The amount of outstanding 2014 Bonds at December 31, 2017 and 2016 is \$61,355,000 and \$61,815,000, respectively.

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

<u>December 31, 2017</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Bonds payable:					
Series of 2014	\$ 61,815,000	\$ -	\$ (460,000)	\$ 61,355,000	\$ 510,000

  

<u>December 31, 2016</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End of Year</u>	<u>Current Portion</u>
Bonds payable:					
Series of 2014	\$ 62,225,000	\$ -	\$ (410,000)	\$ 61,815,000	\$ 460,000

A provision of the terms and conditions of the issuance of the 2014 Bonds allowed for a change in the index rate should the United States corporate tax rate change. Effective January 1, 2018, a decrease in the United States corporate tax rate resulted in an increase in index rate to 85.16% of LIBOR, plus the Applicable Spread, 91 basis points, through the mandatory tender date.

The debt service requirements, through the mandatory tender date using the rate in effect as of December 31, 2017, adjusted for the prospective change in the index rate noted above, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 510,000	\$ 1,337,232	\$ 1,847,232
2019	60,845,000	774,104	61,619,104
	<u>\$ 61,355,000</u>	<u>\$ 2,111,336</u>	<u>\$ 63,466,336</u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017	2016
Interest - bondholders	\$ 939,293	\$ 686,133
Interest - interest rate swap counterparty	1,820,787	2,087,547
Amortization of swap borrowing	(661,627)	(661,627)
	<u>\$ 2,098,453</u>	<u>\$ 2,112,053</u>

As further described in Note 8, the Authority entered into a pay fixed, receive variable interest rate swap on the applicable notional amounts of the Series of 2003 Bonds and Series of 2007 Bonds to 3.67% and 3.57%, respectively, at December 31, 2017 and 2016.

### 8. 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 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, was 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 were scheduled to decrease through maturing principal. The Swap agreements were entered into in 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

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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October 3, 2011, the Authority pays the counterparty a fixed payment of 3.67% related to the applicable notional amounts of the Series of 2003 Bonds and 3.57% related to the applicable notional amounts of the Series of 2007 Bonds.

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, 2017, the Authority paid \$1,427,263 and \$853,944 fixed and received \$267,739 and \$164,678 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively. For the year ended December 31, 2016, the Authority paid \$1,441,056 and \$853,944 fixed and received \$119,341 and \$73,400 variable with respect to the Swap on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, respectively.

During the years ended December 31, 2017 and 2016, the Authority received \$31,134 and \$61,746, respectively, in settlement funds from a class action lawsuit related to the Swap, which is included in non-operating other income on the statement of revenues, expenses, and change in net position.

*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, 2017 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 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.

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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

Notional Amount	January 1, 2017 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2017 - Fair Value
\$ 38,430,000	\$ (11,639,638)	\$ 403,105	\$ 446,721	\$ (10,789,812)
23,920,000	(10,277,926)	258,522	129,165	(9,890,239)
Total	<u>\$ (21,917,564)</u>	<u>\$ 661,627</u>	<u>\$ 575,886</u>	<u>\$ (20,680,051)</u>

  

Notional Amount	January 1, 2016 - Fair Value	Amortization of Swap Borrowing	Change in Fair Value	December 31, 2016 - Fair Value
\$ 38,890,000	\$ (12,554,179)	\$ 403,105	\$ 511,436	\$ (11,639,638)
23,920,000	(10,532,918)	258,522	(3,530)	(10,277,926)
Total	<u>\$ (23,087,097)</u>	<u>\$ 661,627</u>	<u>\$ 507,906</u>	<u>\$ (21,917,564)</u>

*Accounting and Risk Disclosures* - As previously noted, the effect of the termination of the original Swap resulted in a swap borrowing. At December 31, 2017 and 2016, current period changes in fair value for the Swap are accounted for as an investment and are recorded on the statements of revenues, expenses, and change in net position as change in fair value of interest rate swap. The fair value of the outstanding Swap as of December 31, 2017 and 2016 is reported on the statements of net position as a combination of interest rate swap liability and swap borrowing.

*Credit Risk* - As of December 31, 2017, 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, 2017, the Bank was rated Aa2 by Moody's, AA- by Standard & Poor's, and AA- by Fitch.

*Swap Payments and Associated Debt* - Using rates as of December 31, 2017, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds, assuming current interest rates and floating rates under the Swap agreement remain the same for their term, were as follows.



# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

As these rates vary, net Swap payments on the applicable notional amounts of the Series of 2003 Bonds and the applicable notional amounts of the Series of 2007 Bonds will vary:

Fiscal Year Ending December 31,	Series of 2003, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
	2018	\$ 510,000
2019	570,000	1,011,205
2020	630,000	995,852
2021	690,000	978,898
2022	755,000	960,330
2023 - 2027	4,925,000	4,456,794
2028 - 2032	7,255,000	3,676,634
2033 - 2037	10,315,000	2,546,815
2038 - 2042	12,780,000	985,907
	\$ 38,430,000	\$ 16,637,391

Fiscal Year Ending December 31,	Series of 2007, Hotel Room Rental Tax Revenue Bonds	
	Notional Amount	Swap Agreement Payments, Net
	2018	\$ -
2019	-	614,750
2020	-	614,750
2021	-	614,750
2022	-	614,750
2023 - 2027	-	3,073,750
2028 - 2032	-	3,073,750
2033 - 2037	-	3,073,750
2038 - 2042	3,800,000	3,056,102
2043 - 2047	20,120,000	1,657,498
	\$ 23,920,000	\$ 17,008,600

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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*Subsequent Event* – As of February 28, 2018, the fair value of the Authority's interest rate swap was (\$17,090,526).

### 9. Retirement Plans

Effective September 30, 2016, the Authority sponsors a Savings Incentive Match Plan for Eligible Individual Retirement Account (SIMPLE IRA) plan covering all eligible employees. Contributions are matched by the Authority, dollar for dollar up to 3% of the employee's compensation. Amounts charged to retirement expense totaled \$6,646 and \$6,438 for the years ended December 31, 2017 and 2016, respectively.

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 10. Restricted Assets

The restricted assets represent funds 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:

	2017	2016
Cash and investments with trustee:		
Debt service reserve fund	\$ 3,959,672	\$ 3,942,373
Bond fund	500,000	500,000
Operating expense fund	2,565,183	2,610,055
Rate stabilization fund	450,000	450,000
Total cash and investments with trustee	7,474,855	7,502,428
Cash held by Authority:		
HRRT depository	2,130	2,130
Construction fund	102	102
Capital replacement fund	241,266	825,372
Lancaster CRIZ Authority - FF&E reserve	2,330,906	2,205,811
Marketing Consortium funds	456,973	384,764
Total cash and investments held by Authority	3,031,377	3,418,179
Other restricted assets:		
Accounts receivable - Lancaster CRIZ Authority	1,800,000	2,600,000
Accounts receivable - Redevelopment Authority of the City of Lancaster	350,000	450,000
	\$ 12,656,232	\$ 13,970,607

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 11. Net Investment in Capital Assets

Net investment in capital assets at December 31 is comprised of the following:

	2017	2016
Net capital assets	\$ 62,060,995	\$ 63,096,862
Debt service reserve fund	3,959,672	3,942,373
Bond fund	500,000	500,000
HRRT depository	2,130	2,130
Construction fund	102	102
Bonds payable	(61,355,000)	(61,815,000)
Contingency fee payable	(550,000)	(600,000)
Total net investment in capital assets	\$ 4,617,899	\$ 5,126,467

### 12. Restricted Net Position

Net position is restricted at December 31 as follows:

	2017	2016
Rate stabilization fund	\$ 450,000	\$ 450,000
Operating expense fund	2,565,183	2,610,055
Capital replacement fund	241,266	825,372
Marketing Consortium funds	806,973	834,764
Lancaster CRIZ Authority - FF&E reserve	4,130,906	4,805,811
Due to Discover Lancaster	(1,247,973)	(1,240,524)
Total restricted net position	\$ 6,946,355	\$ 8,285,478

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 13. 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.

### 14. Commitments, Contingencies, and Other Restricted Assets

#### Continuing Covenant Agreement

Under the continuing covenant agreement, the Authority is required to maintain certain minimum balances in the funds held at the Trustee Bank. Failure to meet this liquidity covenant for any quarterly period represents an event of default.

#### Collaboration Agreement

As part of the 2014 bond refinancing, the Authority executed a Collaboration Agreement effective July 2014 with other stakeholders in the community.

The participants in the agreement are the County, City, RAEL, Lancaster CRIZ Authority, and Discover Lancaster. The Authority achieved a number of objectives as part of the agreement. The primary objectives were refinancing the bonds under more favorable terms, which required a full County guarantee, achieving a reliable source of funds for targeted marketing activities to attract Priority 1 and Priority 2 events, achieving a reliable source of funding for FF&E replacement costs, replenishing the required reserve accounts, and establishing a more reliable flow of funds, especially in the first half of each year due to the seasonal nature of the collection of the hotel room rental tax.

The 2014 Bonds are currently scheduled for mandatory tender on July 31, 2019. The agreement with Discover Lancaster, which has allowed the Authority to replenish bond and operating reserves as well as expand marketing efforts as discussed below, is currently also set to expire in July 2019, as discussed in Note 2 pertaining to the hotel room rental tax. The City's participation in the Collaboration Agreement encouraged the participation of RAEL

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

and the Lancaster CRIZ Authority to make the commitments discussed in the Marketing Consortium (Consortium) and FF&E funding plans.

Part of the agreement called for the creation of a Consortium to perform the target marketing for Priority 1 and Priority 2 events, as defined in the Collaboration Agreement. The term of the Consortium under the agreement is through June 30, 2021.

The funding for the Consortium comes from the following sources over the seven years in the agreement:

	Authority Administrative Budget	Authority 2014 Bond Funds	RACL	Total
2014	\$ 35,000	\$ 132,000	\$ 50,000	\$ 217,000
2015	35,000	145,000	100,000	280,000
2016	35,000	194,000	100,000	329,000
2017	35,000	243,000	100,000	378,000
2018	35,000	292,000	100,000	427,000
2019	35,000	308,000	100,000	443,000
2020	35,000	326,000	100,000	461,000
2021	-	-	50,000	50,000
Total	<u>\$ 245,000</u>	<u>\$ 1,640,000</u>	<u>\$ 700,000</u>	<u>\$ 2,585,000</u>

During the year ended December 31, 2016, it was determined that future payments under the Collaboration Agreement were considered to be fully collectible. As such, the remaining \$450,000, to be received in 2017 through 2021, was recorded as receivable at December 31, 2016 and reflected in non-operating revenue.

In addition to the funds of the Consortium, the Authority continues to annually budget \$97,000 towards the marketing of priority 1 and priority 2 events.

Of the \$1,204,000 deposited in the Consortium accounts through December 31, 2017, \$747,027 had been expended, leaving a balance of \$456,973 of funds as of December 31, 2017, which is included in the restricted cash and investments of the Authority.

Additionally, the Collaboration Agreement required the Authority to set aside funding for capital reserves to replace FF&E. As part of the Collaboration Agreement, the Lancaster CRIZ

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Authority agreed to make annual payments to the Authority to provide for replacement of FF&E within the convention center.

During the year ended December 31, 2015, the Lancaster CRIZ Authority contributed \$1,000,000, which was their 2014 and 2015 commitment under the Collaboration Agreement. During the year ended December 31, 2016, the Lancaster CRIZ Authority contributed \$1,400,000, which was their 2016 and 2017 commitment under the Collaboration Agreement. During the year ended December 31, 2017, the Lancaster CRIZ Authority contributed \$800,000, which was their 2018 commitment under the Collaboration Agreement.

At December 31, 2015 and 2014, the fulfillment of this commitment was not viewed as receivable by the Authority, as the Authority had significant doubt in this funding becoming a reality. In July 2016, state legislation was passed permitting the Lancaster CRIZ Authority to include revenue from the State Hotel Occupancy Tax in the Lancaster CRIZ Authority calculations. With the legislation, the Lancaster CRIZ Authority revenues were greatly enhanced making this commitment collectible at December 31, 2016. As such, the remaining \$2,600,000, to be received in 2018 through 2020, was recorded as receivable at December 31, 2016 and reflected in non-operating revenue.

The Authority expended \$1,502,988 of the Lancaster CRIZ Authority funds during the year ended December 31, 2017. These expenses are initially paid from the Capital Replacement Fund and are subsequently reimbursed from the Lancaster CRIZ Authority account. At December 31, 2017, the balance of the restricted Lancaster CRIZ Authority account is \$2,330,906; however, \$825,944 remains to be reimbursed to the Authority's Capital Replacement Fund.

The Lancaster CRIZ Authority paid their 2018 obligation of \$800,000 in December of 2017. The remaining obligations of the Lancaster CRIZ Authority are as follows:

2019	\$	900,000
2020		<u>900,000</u>
Total	\$	<u><u>1,800,000</u></u>

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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The Authority is also required under the agreement to make annual contributions to a capital replacement fund. This obligation can be offset by Lancaster CRIZ Authority contributions.

For 2012 through 2014, the Authority made contributions to the capital replacement fund from the bond funds of \$900,000. The balance in the restricted capital replacement fund is \$241,266 as of December 31, 2017.

The capital replacement fund is restricted for FF&E. The 2016 obligation was satisfied by the Lancaster CRIZ Authority contribution and the 2017 obligation was satisfied by the Lancaster CRIZ Authority in December 2016. Although the intent was to match the Authority obligations with the Lancaster CRIZ Authority obligations, there is not an exact match.

The capital replacement fund contribution requirements under the Collaboration Agreement are as follows:

2018	\$	900,000
2019		900,000
2020		900,000
Total	\$	<u>2,700,000</u>

The Lancaster CRIZ Authority FF&E reserve fund and the capital replacement fund have separate restrictions regarding what capital items can be purchased with the reserves.

### 15. Negative Unrestricted Net Position

The Authority's negative unrestricted net position, as shown on the statements of net position as of December 31, 2017 and 2016, is 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

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# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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interest rate swap agreement was put in place. The mark-to-market value at the time of termination was \$21,803,023, which was included in the statement of revenues, expenses, and change in net position as a special item during the year ended December 31, 2011, and is presented on the statements of net position as a swap borrowing, net of accumulated amortization. The \$21,803,023 liability is being amortized over the original life of the 2003/2007 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 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 during the year ended December 31, 2011 on the statement of revenues, expenses, and change in net position. 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.

The December 31, 2017 fair value of the Authority's interest rate swap was (\$20,680,051), when compared to the December 31, 2016 fair value of (\$21,917,564) for a positive change in valuation of \$1,237,513. All changes (including this \$1,237,513) in the fair value of the Authority's interest rate swap are a reflection of market conditions and payments made under the swap agreement.

**SUPPLEMENTARY INFORMATION**

lccca.com

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**COMBINING BALANCE SHEET**

DECEMBER 31, 2017

<u>Assets</u>	<u>Authority</u>	<u>Operations</u>	<u>Total</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 960,224	\$ 1,343,429	\$ 2,303,653
<b>Receivables:</b>			
Taxes	963,386	-	963,386
Other	-	72,696	72,696
Due from Operations/Due to Authority	456,973	(456,973)	-
Inventory	-	13,808	13,808
Other prepaid expenses	14,847	42,476	57,323
<b>Total current assets</b>	<b>2,395,430</b>	<b>1,015,436</b>	<b>3,410,866</b>
<b>Restricted assets:</b>			
Cash and investments	10,049,259	456,973	10,506,232
Current portion of accounts receivable - Redevelopment Authority of the City of Lancaster	100,000	-	100,000
<b>Total restricted assets</b>	<b>10,149,259</b>	<b>456,973</b>	<b>10,606,232</b>
<b>Capital assets:</b>			
Land	1,579,621	-	1,579,621
Building	75,269,320	-	75,269,320
<b>Furniture, fixtures, and equipment:</b>			
Convention Center	5,057,427	-	5,057,427
Penn Square Condominium Association	441,931	-	441,931
Office	36,865	-	36,865
	82,385,164	-	82,385,164
Less: accumulated depreciation	20,324,169	-	20,324,169
<b>Net capital assets</b>	<b>62,060,995</b>	<b>-</b>	<b>62,060,995</b>
<b>Other restricted assets:</b>			
Accounts receivable - Lancaster CRIZ Authority	1,800,000	-	1,800,000
Accounts receivable - Redevelopment Authority of the City of Lancaster	250,000	-	250,000
<b>Total other restricted assets</b>	<b>2,050,000</b>	<b>-</b>	<b>2,050,000</b>
<b>Total Assets</b>	<b>\$ 76,655,684</b>	<b>\$ 1,472,409</b>	<b>\$ 78,128,093</b>

(Continued)

<b>Liabilities and Net Position</b>	<u>Authority</u>	<u>Operations</u>	<u>Total</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	\$ 700	\$ 7,913	\$ 8,613
Accrued payroll and payroll expense	9,203	-	9,203
Other accrued expenses	-	258,230	258,230
Due to Interstate Hotels & Resorts	-	188,000	188,000
Current portion of bonds payable	510,000	-	510,000
Unearned revenue	-	235,374	235,374
Contingency fee payable	50,000	-	50,000
Total current liabilities	<u>569,903</u>	<u>689,517</u>	<u>1,259,420</u>
Current liabilities (payable from restricted assets):			
Accrued interest payable	232,597	-	232,597
Due to Discover Lancaster	1,247,973	-	1,247,973
Total current liabilities (payable from restricted assets)	<u>1,480,570</u>	<u>-</u>	<u>1,480,570</u>
Long-term liabilities:			
Reimbursement for contingency payable	500,000	-	500,000
Bonds payable	60,845,000	-	60,845,000
Interest rate swap liability	3,012,196	-	3,012,196
Swap borrowing, net of accumulated amortization of \$4,135,168	17,667,855	-	17,667,855
Total long-term liabilities	<u>82,025,051</u>	<u>-</u>	<u>82,025,051</u>
Total Liabilities	<u>84,075,524</u>	<u>689,517</u>	<u>84,765,041</u>
<b>Net Position:</b>			
Net investment in capital assets	4,617,899	-	4,617,899
Restricted	6,946,355	-	6,946,355
Unrestricted	<u>(18,984,094)</u>	<u>782,892</u>	<u>(18,201,202)</u>
Total Net Position	<u>(7,419,840)</u>	<u>782,892</u>	<u>(6,636,948)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 76,655,684</u>	<u>\$ 1,472,409</u>	<u>\$ 78,128,093</u>
			(Concluded)

# LANCASTER COUNTY CONVENTION CENTER AUTHORITY

## COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2017

	Authority	Operations	Total
<b>Operating Revenues:</b>			
Conference services	\$ -	\$ 1,813,374	\$ 1,813,374
Concession	-	180,616	180,616
Other	-	6,657	6,657
Total operating revenues	-	2,000,647	2,000,647
<b>Operating Expenses:</b>			
Departmental expenses	-	811,970	811,970
Undistributed operating expenses	-	1,672,300	1,672,300
Management fees	-	187,350	187,350
Fixed charges	-	79,619	79,619
Capital/development costs	8,397	-	8,397
Total operating expenses	8,397	2,751,239	2,759,636
<b>Other Operating Expenses:</b>			
Administrative expenses	393,833	-	393,833
Collaboration Agreement - Marketing Consortium	305,791	-	305,791
Depreciation	2,457,801	-	2,457,801
Total other operating expenses	3,157,425	-	3,157,425
<b>Operating Loss</b>	<b>(3,165,822)</b>	<b>(750,592)</b>	<b>(3,916,414)</b>
<b>Non-Operating Revenues (Expenses):</b>			
Hotel room rental tax income, net of \$1,247,973 as required by the Collaboration Agreement	5,130,304	-	5,130,304
Investment income	31,717	-	31,717
Other income	42,807	-	42,807
Loss on disposal of asset	(83,877)	-	(83,877)
Interest expense, net of amortization of swap borrowing of \$661,627	(2,098,453)	-	(2,098,453)
Change in fair value of interest rate swap	575,886	-	575,886
Total non-operating revenues (expenses)	3,598,384	-	3,598,384
<b>Transfers</b>	<b>(776,903)</b>	<b>776,903</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(344,341)</b>	<b>26,311</b>	<b>(318,030)</b>
<b>Net Position:</b>			
Beginning of period	(7,075,499)	756,581	(6,318,918)
End of period	\$ (7,419,840)	\$ 782,892	\$ (6,636,948)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**SCHEDULE OF EXPENSES**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Operating Expenses:</b>		
Departmental expenses:		
Conference service	\$ 523,578	\$ 455,171
Concession	130,432	109,406
Event management	70,845	70,516
Public space	87,115	81,685
Total departmental expenses	811,970	716,778
Undistributed operating expenses:		
Administrative and general	337,570	331,898
Sales and marketing	321,697	290,584
Repairs and maintenance	469,828	471,391
Energy	395,407	442,080
Information technology	104,765	87,434
Miscellaneous	43,033	43,391
Total undistributed operating expenses	1,672,300	1,666,778
Management fees	187,350	183,870
Collaboration Agreement - Marketing Consortium	305,791	282,046
Fixed charges:		
Insurance	70,521	70,378
Operating supplies and equipment	9,098	1,550
Total fixed charges	79,619	71,928
Administrative expenses:		
Solicitor fees and expense	1,753	10,751
Historic properties repairs	6,685	1,969
Renovation and minor equipment	7,671	98,079
Employee compensation	221,806	215,510
Executive director expenses, employee mileage and travel	3,566	4,582
Payroll taxes	16,199	15,617
Employee benefits	50,216	45,987
Office supplies and expense	1,546	949
Internet and computer service	9,648	8,639
Accounting fees	31,072	32,291
Business advisory fees	10,563	39,488
Insurance	23,217	22,583
Telephone expense	2,101	2,040
Advertising notices	712	189
Industry consulting	299	-
Miscellaneous expense	6,779	9,601
Total administrative expenses	393,833	508,275

(Continued)

**LANCASTER COUNTY CONVENTION  
CENTER AUTHORITY**

**SCHEDULE OF EXPENSES**

YEARS ENDED DECEMBER 31, 2017 AND 2016

(Continued)

	<u>2017</u>	<u>2016</u>
Depreciation	2,457,801	2,445,332
Capital/development costs:		
Accounting	2,397	2,086
Trustee fees	6,000	6,000
Total capital/development costs	<u>8,397</u>	<u>8,086</u>
Total operating expenses	<u>\$ 5,917,061</u>	<u>\$ 5,883,093</u>

(Concluded)

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